UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ___________

Commission File Number: 0-25248

CONSOLIDATED WATER CO. LTD.

(Exact name of registrant as specified in its charter)

CAYMAN ISLANDS	**98-0619652**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Regatta Office Park **Windward Three, 4th Floor, West Bay Road** **P.O. Box 1114** **Grand Cayman KY1-1102** **Cayman Islands**	**N/A**
(Address of principal executive offices)	(Zip Code)

(345) 945-4277
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.60 par value	**CWCO**	**The Nasdaq Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☒ Smaller reporting company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

As of November 3, 2023, 15,747,464 shares of the registrant's common stock, with US$0.60 par value, were outstanding.

TABLE OF CONTENTS

Note Regarding Currency and Exchange Rates

Unless otherwise indicated, all references to “$” or “US$” are to United States dollars.

The exchange rate for conversion of Cayman Island dollars (CI$) into US$, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US$1.20 per CI$1.00.

The exchange rate for conversion of Bahamas dollars (B$) into US$, as determined by the Central Bank of The Bahamas, has been fixed since 1973 at US$1.00 per B$1.00.

The official currency of the British Virgin Islands is the US$.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 48,845,606	$ 50,711,751
Accounts receivable, net	38,114,847	27,046,182
Inventory	7,915,456	5,727,842
Prepaid expenses and other current assets	5,430,079	5,643,279
Contract assets	8,972,740	2,913,722
Current assets of discontinued operations	298,591	531,480
Total current assets	109,577,319	92,574,256
Property, plant and equipment, net	50,063,524	52,529,545
Construction in progress	6,446,049	3,705,681
Inventory, noncurrent	5,048,222	4,550,987
Investment in OC-BVI	1,388,917	1,545,430
Goodwill	10,425,013	10,425,013
Intangible assets, net	2,408,888	2,818,888
Operating lease right-of-use assets	1,720,637	2,058,384
Other assets	3,389,634	1,669,377
Long-term assets of discontinued operations	21,129,288	21,129,288
Total assets	$ 211,597,491	$ 193,006,849
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable, accrued expenses and other current liabilities	$ 11,436,484	$ 8,438,315
Accounts payable - related parties	—	403,839
Accrued compensation	2,697,033	2,267,583
Dividends payable	1,570,319	1,375,403
Current maturities of operating leases	471,506	546,851
Current portion of long-term debt	114,964	114,964
Contract liabilities	9,528,749	8,803,921
Deferred revenue	391,558	315,825
Current liabilities of discontinued operations	259,853	389,884
Total current liabilities	26,470,466	22,656,585
Long-term debt, noncurrent	133,770	216,117
Deferred tax liabilities	466,285	560,306
Noncurrent operating leases	1,481,005	1,590,542
Other liabilities	153,000	219,110
Total liabilities	28,704,526	25,242,660
Commitments and contingencies		
Equity		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, $0.60 par value. Authorized 200,000 shares; issued and outstanding 45,209 and 34,383 shares, respectively	27,125	20,630
Class A common stock, $0.60 par value. Authorized 24,655,000 shares; issued and outstanding 15,746,552 and 15,322,875 shares, respectively	9,447,931	9,193,725
Class B common stock, $0.60 par value. Authorized 145,000 shares; none issued	—	—
Additional paid-in capital	91,716,763	89,205,159
Retained earnings	76,807,700	61,247,699
Total Consolidated Water Co. Ltd. stockholders' equity	177,999,519	159,667,213
Non-controlling interests	4,893,446	8,096,976
Total equity	182,892,965	167,764,189
Total liabilities and equity	$ 211,597,491	$ 193,006,849

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	$ 49,854,075	$ 25,051,705	$ 126,960,328	$ 65,676,737
Cost of revenue (including related party expense of $0 and $685,481 for the three months ended, and $0 and $2,165,850 for the nine months ended, September 30, 2023 and 2022, respectively)	33,239,647	18,207,932	84,323,269	44,211,703
Gross profit	16,614,428	6,843,773	42,637,059	21,465,034
General and administrative expenses (including related party expense of $0 and $24,231 for the three months ended, and $0 and $72,693 for the nine months ended, September 30, 2023 and 2022, respectively)	5,872,490	5,610,650	17,894,067	15,403,458
Gain on asset dispositions and impairments, net	—	3,499	6,916	21,237
Income from operations	10,741,938	1,236,622	24,749,908	6,082,813
Other income (expense):				
Interest income	196,567	56,701	396,348	348,304
Interest expense	(34,020)	(2,042)	(108,111)	(8,847)
Profit-sharing income from OC-BVI	12,150	6,075	38,475	24,300
Equity in the earnings of OC-BVI	37,182	19,921	108,012	71,238
Net gain (loss) on put/call options	—	(247,000)	—	29,000
Other	24,187	(2,635)	87,532	84,734
Other income (expense), net	236,066	(168,980)	522,256	548,729
Income before income taxes	10,978,004	1,067,642	25,272,164	6,631,542
Provision for income taxes	1,976,453	26,616	4,366,005	83,041
Net income from continuing operations	9,001,551	1,041,026	20,906,159	6,548,501
Income from continuing operations attributable to non-controlling interests	163,428	217,415	463,775	691,042
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders	8,838,123	823,611	20,442,384	5,857,459
Total loss from discontinued operations	(232,994)	(505,917)	(699,858)	(1,533,064)
Net income attributable to Consolidated Water Co. Ltd. stockholders	$ 8,605,129	$ 317,694	$ 19,742,526	$ 4,324,395
Basic earnings (loss) per common share attributable to Consolidated Water Co. Ltd. common stockholders				
Continuing operations	$ 0.56	$ 0.05	$ 1.30	$ 0.38
Discontinued operations	(0.01)	(0.03)	(0.05)	(0.10)
Basic earnings per share	$ 0.55	$ 0.02	$ 1.25	$ 0.28
Diluted earnings (loss) per common share attributable to Consolidated Water Co. Ltd. common stockholders				
Continuing operations	$ 0.55	$ 0.05	$ 1.28	$ 0.38
Discontinued operations	(0.01)	(0.03)	(0.04)	(0.10)
Diluted earnings per share	$ 0.54	$ 0.02	$ 1.24	$ 0.28
Dividends declared per common and redeemable preferred shares	$ 0.095	$ 0.085	$ 0.265	$ 0.255
Weighted average number of common shares used in the determination of:				
Basic earnings per share	15,742,854	15,290,597	15,734,234	15,287,233
Diluted earnings per share	15,928,604	15,450,276	15,909,725	15,440,261

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Redeemable preferred stock		Common stock		Additional paid-in capital	Retained earnings	Non-controlling interests	Total stockholders' equity
	Shares	Dollars	Shares	Dollars				
Balance as of December 31, 2022	34,383	$20,630	15,322,875	$9,193,725	$89,205,159	$61,247,699	$ 8,096,976	$167,764,189
Issue of share capital	—	—	44,783	26,870	(26,870)	—	—	—
Net income	—	—	—	—	—	3,813,626	163,121	3,976,747
Purchase of remaining non-controlling interest in PERC	—	—	368,383	221,030	1,006,248	—	(3,667,305)	(2,440,027)
Dividends declared	—	—	—	—	—	(1,342,015)	—	(1,342,015)
Stock-based compensation	—	—	—	—	463,893	—	—	463,893
Balance as of March 31, 2023	34,383	20,630	15,736,041	9,441,625	90,648,430	63,719,310	4,592,792	168,422,787
Issue of share capital	13,309	7,985	—	—	(7,985)	—	—	—
Buyback of preferred stock	(203)	(122)	—	—	(1,708)	—	—	(1,830)
Net income	—	—	—	—	—	7,323,771	137,226	7,460,997
Exercise of options	599	360	—	—	6,891	—	—	7,251
Dividends declared	—	—	—	—	—	(1,340,972)	—	(1,340,972)
Stock-based compensation	—	—	—	—	461,695	—	—	461,695
Balance as of June 30, 2023	48,088	28,853	15,736,041	9,441,625	91,107,323	69,702,109	4,730,018	175,009,928
Conversion of preferred stock	(7,936)	(4,762)	7,936	4,762	—	—	—	—
Net income	—	—	—	—	—	8,605,129	163,428	8,768,557
Exercise of options	5,057	3,034	2,575	1,544	87,935	—	—	92,513
Dividends declared	—	—	—	—	—	(1,499,538)	—	(1,499,538)
Stock-based compensation	—	—	—	—	521,505	—	—	521,505
Balance as of September 30, 2023	45,209	$27,125	15,746,552	$9,447,931	$91,716,763	$76,807,700	$ 4,893,446	$182,892,965

	Redeemable preferred stock		Common stock		Additional paid-in capital	Retained earnings	Non-controlling interests	Total stockholders' equity
	Shares	Dollars	Shares	Dollars				
Balance as of December 31, 2021	28,635	$17,181	15,243,693	$9,146,216	$87,812,432	$60,603,056	$8,086,538	$165,665,423
Issue of share capital	—	—	41,830	25,098	(25,098)	—	—	—
Conversion of preferred stock	—	—	—	—	—	—	—	—
Buyback of preferred stock	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	1,716,815	241,430	1,958,245
Dividends declared	—	—	—	—	—	(1,303,014)	—	(1,303,014)
Stock-based compensation	—	—	—	—	188,985	—	—	188,985
Balance as of March 31, 2022	28,635	17,181	15,285,523	9,171,314	87,976,319	61,016,857	8,327,968	166,509,639
Issue of share capital	9,295	5,577	—	—	(5,577)	—	—	—
Buyback of preferred stock	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	2,289,886	232,197	2,522,083
Exercise of options	309	185	—	—	2,511	—	—	2,696
Dividends declared	—	—	—	—	—	(1,301,840)	(464,200)	(1,766,040)
Stock-based compensation	—	—	—	—	205,137	—	—	205,137
Balance as of June 30, 2022	38,239	22,943	15,285,523	9,171,314	88,178,390	62,004,903	8,095,965	167,473,515
Conversion of preferred stock	(6,585)	(3,951)	6,585	3,951	—	—	—	—
Net income	—	—	—	—	—	317,694	217,415	535,109
Exercise of options	2,755	1,653	—	—	22,390	—	—	24,043
Purchase of non-controlling interests in PERC	—	—	—	—	—	—	(638,275)	(638,275)
Dividends declared	—	—	—	—	—	(1,302,110)	—	(1,302,110)
Stock-based compensation	—	—	—	—	413,539	—	—	413,539
Balance as of September 30, 2022	34,409	$20,645	15,292,108	$9,175,265	$88,614,319	$61,020,487	$7,675,105	$166,505,821

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2023	**2022**
Net cash provided by operating activities - continuing operations	$ 9,245,264	$ 16,926,429
Net cash used in operating activities - discontinued operations	(849,639)	(1,123,193)
Net cash provided by operating activities	8,395,625	15,803,236
Cash flows from investing activities		
Purchase of certificate of deposit	—	(2,518,493)
Maturity of certificate of deposit	—	5,018,493
Additions to property, plant and equipment and construction in progress	(4,123,770)	(2,947,937)
Proceeds from asset dispositions	21,410	31,181
Purchase of remaining non-controlling interest in PERC	(2,440,027)	—
Net cash used in investing activities	(6,542,387)	(416,756)
Cash flows from financing activities		
Dividends paid to common shareholders	(3,977,676)	(3,841,842)
Dividends paid to preferred shareholders	(9,933)	(8,154)
Dividends paid to non-controlling interests	—	(1,102,475)
Buyback of redeemable preferred stock	(1,830)	—
Proceeds received from exercise of stock options	99,764	26,739
Principal repayments on long-term debt	(82,347)	(51,564)
Net cash used in financing activities	(3,972,022)	(4,977,296)
Net increase (decrease) in cash and cash equivalents	(2,118,784)	10,409,184
Cash and cash equivalents at beginning of period	50,711,751	40,358,059
Cash and cash equivalents at beginning of period - discontinued operations	442,252	750,048
Less: cash and cash equivalents at end of period - discontinued operations	(189,613)	(432,002)
Cash and cash equivalents at end of period	$ 48,845,606	$ 51,085,289
Non-cash transactions:		
Issuance of 13,309 and 9,295, respectively, shares of redeemable preferred stock for services rendered	$ 287,922	$ 133,197
Issuance of 44,783 and 41,830, respectively, shares of common stock for services rendered	$ 621,811	$ 521,016
Conversion (on a one-to-one basis) of 7,936 and 6,585, respectively, shares of redeemable preferred stock to common stock	4,762	3,951
Dividends declared but not paid	$ 1,500,218	$ 1,302,754
Issuance of 368,383 and 0, respectively, shares of common stock for the purchase of non-controlling interest in PERC	$ 5,359,973	$ —
Transfers from inventory to property, plant and equipment and construction in progress	$ 224,952	$ 246,238
Transfers from construction in progress to property, plant and equipment	$ 525,673	$ 413,416
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 249,145	$ —
Purchase of equipment through issuance of long-term debt	$ —	$ 68,422
Transfers from prepaid expenses to property, plant and equipment	$ 255,379	$ —
Transfers from prepaid expenses to inventory	$ 238,032	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED WATER CO. LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Principal activity

Consolidated Water Co. Ltd. and its subsidiaries (collectively, the "Company") supply potable water, treat wastewater and water for reuse, and provide water-related products and services to customers in the Cayman Islands, The Bahamas, the United States and the British Virgin Islands. The Company produces potable water from seawater using reverse osmosis technology and sells this water to a variety of customers, including public utilities, commercial and tourist properties, residential properties and government facilities. The Company designs, builds and sells water production and water treatment infrastructure and manages water infrastructure for commercial and governmental customers. The Company also manufactures a wide range of specialized and custom water industry related products and provides design, engineering, operating and other services applicable to commercial, municipal and industrial water production, supply and treatment.

2. Accounting policies

Basis of consolidation: The accompanying condensed consolidated financial statements include the accounts of the Company's (i) wholly-owned subsidiaries, Aerex Industries, Inc. ("Aerex"), Aquilex, Inc. ("Aquilex"), Cayman Water Company Limited ("Cayman Water"), Consolidated Water Cooperatief, U.A. ("CW-Cooperatief"), Consolidated Water U.S. Holdings, Inc. ("CW-Holdings"), DesalCo Limited ("DesalCo"), Kalaeloa Desalco LLC ("Kalaeloa Desalco"), Ocean Conversion (Cayman) Limited ("OC-Cayman"), and PERC Water Corporation ("PERC"); and (ii) majority-owned subsidiaries Consolidated Water (Bahamas) Ltd. ("CW-Bahamas"), N.S.C. Agua, S.A. de C.V. ("NSC"), and Aguas de Rosarito S.A.P.I. de C.V. ("AdR"). The Company's investment in its affiliate Ocean Conversion (BVI) Ltd. ("OC-BVI") is accounted for using the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

On January 4, 2023, as a result of CW-Holdings' exercise of a call option in October 2022, CW-Holdings purchased the remaining 39% ownership interest in PERC for $2.4 million in cash and 368,383 shares of the Company's common stock, having a value of approximately $5.36 million based upon the opening trading price of the Company's common stock on The Nasdaq Global Market on the date of the transaction. After giving effect to this purchase, CW-Holdings owns 100% of the outstanding capital stock of PERC.

In September 2021, Kalaeloa Desalco was formed to pursue a project encompassing the design, construction, operations and maintenance of a seawater reverse osmosis desalination plant in Oahu, Hawaii. On June 2, 2023, Kalaeloa Desalco, which is jointly owned by PERC and CW-Holdings, signed a definitive agreement with the Honolulu Board of Water Supply to design, build, operate and maintain a 1.7 million gallons per day seawater reverse osmosis desalination plant in Oahu, Hawaii.

The accompanying interim condensed consolidated financial statements are unaudited. These condensed consolidated financial statements reflect all adjustments (which are of a normal recurring nature) that, in the opinion of management, are necessary to fairly present the Company's consolidated financial position, results of operations and cash flows as of and for the periods presented. The consolidated results of operations for these interim periods are not necessarily indicative of the operating results for future periods, including the fiscal year ending December 31, 2023.

These condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") relating to interim financial statements and in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted in these condensed consolidated financial statements pursuant to SEC rules and regulations, although the Company believes that the disclosures made herein are adequate to make the information not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Foreign currency: The Company's reporting currency is the United States dollar ("US$"). The functional currency of the Company and its foreign operating subsidiaries (other than NSC, AdR, and CW-Cooperatief) is the currency for each respective country. The functional currency for NSC, AdR, and CW-Cooperatief is the US$. NSC and AdR conduct business in US$ and Mexican pesos and CW-Cooperatief conducts business in US$ and euros. The exchange rates for the Cayman Islands dollar and the Bahamian dollar are fixed to the US$. The exchange rates for conversion of Mexican pesos and euros into US$ vary based upon market conditions.

Net foreign currency gains (losses) arising from transactions and re-measurements were $ 22,077 and ($8,068) for the three months ended September 30, 2023 and 2022, respectively, and $72,253 and $20,966 for the nine months ended September 30, 2023 and 2022, respectively, and are included in "Other income (expense) - Other" in the accompanying condensed consolidated statements of income.

Cash and cash equivalents: Cash and cash equivalents consist of demand deposits at banks and certificates of deposit at banks with an original maturity of three months or less. Cash and cash equivalents as of September 30, 2023 and December 31, 2022 include approximately $5.1 million and $5.0 million, respectively, of certificates of deposits with an original maturity of three months or less.

Certain transfers from the Company's Bahamas bank accounts to Company bank accounts in other countries require the approval of the Central Bank of The Bahamas. The equivalent United States dollar cash balances for deposits held in The Bahamas as of September 30, 2023 and December 31, 2022 were approximately $5.1 million and $5.7 million, respectively.

Goodwill and intangible assets: Goodwill represents the excess cost of an acquired business over the fair value of the assets and liabilities of the acquired business as of the date of acquisition. Goodwill and intangible assets recorded as a result of a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or upon the identification of a triggering event. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. The Company evaluates the possible impairment of goodwill annually as part of its reporting process for the fourth quarter of each fiscal year. Management identifies the Company's reporting units for goodwill impairment testing purposes, which consist of Cayman Water, the bulk segment (which is comprised of CW-Bahamas and OC-Cayman), PERC, and the manufacturing segment (i.e., Aerex), and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. The Company determines the fair value of each reporting unit and compares these fair values to the carrying amounts of the reporting units. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an impairment loss is recorded.

As of December 31, 2022, the Company elected to assess qualitative factors to determine whether it was necessary to perform the quantitative goodwill impairment testing conducted in prior years for all reporting units other than the manufacturing reporting unit. The Company assessed relevant events and circumstances to evaluate whether it is more likely than not that the fair values of such reporting units are less than their carrying values. The events and circumstances assessed for each unit included macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, and other relevant events. Based upon this qualitative assessment the Company determined that it was more likely than not that the fair values of its Cayman Water and bulk segment reporting units exceeded their carrying values as of December 31, 2022. Based upon the Company's negotiated, arms-length purchase of the remaining 39% equity interest in PERC from its minority shareholders for $ 7.8 million in January 2023, the fair value of the Company's PERC reporting unit exceeded its carrying value by 79% as of December 31, 2022.

For the year ended December 31, 2022, the Company estimated the fair value of its manufacturing reporting unit by applying the discounted cash flow method, which relied upon seven-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These seven-year projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented the estimated cost of capital for market participants at the time of the analysis. The Company also estimated the fair value of its manufacturing reporting unit for the year ended December 31, 2022 by applying the guideline public company method. The Company weighted the fair values estimated for its manufacturing reporting unit under each method and summed such weighted fair values to estimate the overall fair value for the reporting unit. The respective weightings the Company applied to each method for the year ended December 31, 2022 were 80% to the discounted cash flow method and 20% to the guideline public company method.

The fair value the Company estimated for its manufacturing reporting unit exceeded its carrying amount by 63% as of December 31, 2022.

The Company believes that the inherent uncertainties associated with the accounting estimates and assumptions it uses for its estimates of its manufacturing reporting unit's fair value have increased due to the current, less predictable economic conditions, which have resulted in increasing raw material prices, extended and unexpected delays in the procurement and delivery of its raw materials, and have also, the Company believes, adversely affected its customers. Should interest rates rise significantly in the future the Company would likely be required to increase the discount rate it uses under the discounted cash flow method to estimate the fair value of this reporting unit, and such increased discount rate in and of itself could decrease the estimated fair value of the manufacturing reporting unit under the discounted cash flow method.

As noted previously, based upon the Company's estimation prepared as of December 31, 2022, the fair value of the Company's manufacturing reporting unit exceeded its carrying value by 63%. However, if the Company determines in the future that Aerex's discounted future cash inflows will be less than its present expectations, the Company may be required to record impairment losses to reduce the remaining carrying values of its manufacturing reporting unit's goodwill and its remaining unamortized intangible assets balances, which amounted to $1,985,211 and $684,444, respectively, as of September 30, 2023. Any such impairment losses could have a material adverse impact on the Company's consolidated results of operations.

Income taxes: The Company accounts for the income taxes arising from the operations of its United States subsidiaries under the asset and liability method. Deferred tax assets and liabilities, if any, are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to the extent any deferred tax asset may not be realized.

The Company is not presently subject to income taxes in the other countries in which it operates.

Revenue recognition: Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The following table presents the Company's revenue disaggregated by revenue source.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Retail revenue	$ 7,216,574	$ 6,274,650	$ 22,560,998	$ 19,114,653
Bulk revenue	8,488,615	8,667,931	25,975,483	24,442,324
Services revenue	29,427,664	8,731,124	66,243,328	18,530,427
Manufacturing revenue	4,721,222	1,378,000	12,180,519	3,589,333
Total revenue	$ 49,854,075	$ 25,051,705	$ 126,960,328	$ 65,676,737

Services revenue consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Construction revenue	$ 24,204,446	$ 4,781,613	$ 52,563,822	$ 5,347,023
Operations and maintenance revenue	5,021,081	3,394,142	12,750,902	10,740,623
Design and consulting revenue	202,137	555,369	928,604	2,442,781
Total services revenue	$ 29,427,664	$ 8,731,124	$ 66,243,328	$ 18,530,427

Retail revenue

The Company produces and supplies water to end-users, including residential, commercial and governmental customers in the Cayman Islands under an exclusive retail license issued to Cayman Water by the Cayman Islands government to provide water in two of the three most populated areas on Grand Cayman. Customers are billed on a monthly basis based on metered consumption and bills are typically collected within 30 to 45 days after the billing date. Receivables not collected within 45 days subject the customer to disconnection from water service.

The Company recognizes revenue from water sales at the time water is supplied to the customer's premises. The amount of water supplied is determined and invoiced based upon water meter readings performed at the end of each month. All retail water contracts are month-to-month contracts. The Company has elected the "right to invoice" practical expedient for revenue recognition on its retail water sale contracts and recognizes revenue in the amount to which the Company has a right to invoice.

Bulk revenue

The Company produces and supplies water to government-owned utilities in the Cayman Islands and The Bahamas.

OC-Cayman provides bulk water to the Water Authority-Cayman ("WAC"), a government-owned utility and regulatory agency, under two agreements. The WAC in turn distributes such water to properties in Grand Cayman outside of Cayman Water's retail license area.

The Company sells bulk water in The Bahamas through its majority-owned subsidiary, CW-Bahamas, under two agreements with the Water and Sewerage Corporation of The Bahamas ("WSC"), which distributes such water through its own pipeline system to residential, commercial and tourist properties on the island of New Providence.

The Company has elected the "right to invoice" practical expedient for revenue recognition on its bulk water sale contracts and recognizes revenue in the amount to which the Company has a right to invoice.

Services and Manufacturing revenue

The Company designs, builds, sells, operates and maintains, and provides consulting services related to water, wastewater and water reuse infrastructure through PERC. All of PERC's customers are companies or governmental entities located in the U.S.

The Company also provides design, engineering, management, procurement and construction services for desalination infrastructure through DesalCo, which serves customers in the Cayman Islands, The Bahamas and the British Virgin Islands.

The Company, through Aerex, is a custom and specialty manufacturer of systems and products applicable to commercial, municipal and industrial water production and treatment. Substantially all of Aerex's customers are U.S. companies.

The Company generates construction, operations and maintenance, design and consulting revenue from PERC and DesalCo and generates manufacturing revenue from Aerex.

The Company recognizes revenue for its construction and custom/specialized manufacturing contracts over time under the input method using costs incurred (which represents work performed) to date relative to the total estimated costs at completion to measure progress toward satisfying a contract's performance obligations as such measure best reflects the transfer of control of the promised good to the customer. Contract costs include labor, materials, subcontractor costs and other expenses. The Company follows this method since it can make reasonably dependable estimates of the revenue and costs applicable to the various stages of a contract. Under this input method, the Company records revenue and recognizes profit or loss as work on the contract progresses. The Company estimates total costs to be incurred and profit to be earned on each long-term, fixed price contract prior to commencement of work on the contract and updates these estimates as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is that percentage of total estimated revenue that incurred costs to date comprise of estimated total contract costs. Due to the extended time it may take to complete many of the Company's contracts and the scope and nature of the work required to be performed on those contracts, the estimations of total revenue and costs at completion are complicated and subject to many variables and, accordingly, are subject to changes. When adjustments in estimated total contract revenue or estimated total contract costs are required, any changes from prior estimates are recognized in the current period for the inception-to-date effect of such changes. The Company recognizes the full amount of any estimated loss on a contract at the time the estimates indicate such a loss. Any contract assets are classified as current assets. Contract liabilities on uncompleted contracts, if any, are classified as current liabilities.

During the three and nine months ended September 30, 2023, the Company adjusted its previous estimates of the total contract costs for two of its construction contracts. These adjustments increased the services segment's income from operations and the Company's consolidated net income by $1,787,275 and $1,350,108, respectively, for the three months ended September 30, 2023, and $3,549,028 and $2,680,936 for the nine months ended September 30, 2023, respectively. This adjustment increased diluted earnings per share by $0.08 and $0.17 for the three and nine months ended September 30, 2023, respectively.

The Company has elected the "right to invoice" practical expedient for revenue recognition on its operations and maintenance, design and consulting contracts and recognizes revenue in the amount to which the Company has a right to invoice.

Revenue recognized and amounts billed on contracts in progress are summarized as follows:

	September 30, 2023	December 31, 2022
Revenue recognized to date on contracts in progress	$ 86,655,434	$ 25,469,014
Amounts billed to date on contracts in progress	(94,162,641)	(33,407,182)
Retainage	6,951,198	2,047,969
Net contract liability	$ (556,009)	$ (5,890,199)

The above net balances are reflected in the accompanying condensed consolidated balance sheets as follows:

	September 30, 2023	December 31, 2022
Contract assets	$ 8,972,740	$ 2,913,722
Contract liabilities	(9,528,749)	(8,803,921)
Net contract liability	$ (556,009)	$ (5,890,199)

The significant increase in contract assets from December 31, 2022 to September 30, 2023 is primarily attributable to the construction contract with the WAC for the Red Gate plant.

As of September 30, 2023, the Company had unsatisfied or partially unsatisfied performance obligations for contracts in progress representing approximately $189.3 million in aggregate transaction price for contracts with an original expected length of greater than one year. The Company expects to earn revenue as it satisfies its performance obligations under those contracts in the amount of approximately $28.8 million during the remainder of the year ending December 31, 2023 and approximately $160.5 million thereafter. In addition, the Company recognized revenue of approximately $9.6 million in the nine months ended September 30, 2023, that was included in the contract liability balance as of December 31, 2022.

Practical Expedients and Exemptions

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

Comparative amounts: Certain amounts presented in the financial statements previously issued for 2022 have been reclassified to conform to the current periods' presentation.

3. Segment information

The Company has four reportable segments: retail, bulk, services and manufacturing. The retail segment operates the water utility for the Seven Mile Beach and West Bay areas of Grand Cayman pursuant to an exclusive license granted by the Cayman Islands government. The bulk segment supplies potable water to government utilities in Grand Cayman and The Bahamas under long-term contracts. The services segment designs, constructs and sells water infrastructure and provides management and operating services to third parties. The manufacturing segment manufactures and services a wide range of custom and specialized water-related products applicable to commercial, municipal and industrial water production, supply and treatment. Consistent with prior periods, the Company records all non-direct general and administrative expenses in its retail segment and does not allocate any of these non-direct expenses to its other three business segments.

The accounting policies of the segments are consistent with those described in Note 2. The Company evaluates each segment's performance based upon its income (or loss) from operations. All intercompany transactions are eliminated for segment presentation purposes.

The Company's segments are strategic business units that are managed separately because each segment sells different products and/or services, serves customers with distinctly different needs and generates different gross profit margins.

	Three Months Ended September 30, 2023				
	Retail	Bulk	Services	Manufacturing	Total
Revenue	$ 7,216,574	$ 8,488,615	$ 29,427,664	$ 4,721,222	$ 49,854,075
Cost of revenue	3,371,891	5,835,837	20,174,645	3,857,274	33,239,647
Gross profit	3,844,683	2,652,778	9,253,019	863,948	16,614,428
General and administrative expenses	4,225,825	347,668	861,835	437,162	5,872,490
Income (loss) from operations	$ (381,142)	$ 2,305,110	$ 8,391,184	$ 426,786	10,741,938
Other income, net					236,066
Income before income taxes					10,978,004
Provision for income taxes					1,976,453
Net income from continuing operations					9,001,551
Income from continuing operations attributable to non-controlling interests					163,428
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders					8,838,123
Net loss from discontinued operations					(232,994)
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 8,605,129

Depreciation and amortization expenses for the three months ended September 30, 2023 for the retail, bulk, services and manufacturing segments were $593,306, $748,594, $182,825 and $68,197, respectively.

	Three Months Ended September 30, 2022				
	Retail	Bulk	Services	Manufacturing	Total
Revenue	$ 6,274,650	$ 8,667,931	$ 8,731,124	$ 1,378,000	$ 25,051,705
Cost of revenue	3,231,973	6,446,549	7,333,982	1,195,428	18,207,932
Gross profit	3,042,677	2,221,382	1,397,142	182,572	6,843,773
General and administrative expenses	3,818,459	473,534	936,708	381,949	5,610,650
Gain on asset dispositions and impairments, net	1,499	2,000	—	—	3,499
Income (loss) from operations	$ (774,283)	$ 1,749,848	$ 460,434	$ (199,377)	1,236,622
Other expense, net					(168,980)
Income before income taxes					1,067,642
Provision for income taxes					26,616
Net income from continuing operations					1,041,026
Income attributable to non-controlling interests					217,415
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders					823,611
Net loss from discontinued operations					(505,917)
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 317,694

Depreciation and amortization expenses for the three months ended September 30, 2022 for the retail, bulk, services and manufacturing segments were $567,086, $707,788, $175,732 and $71,734, respectively.

	Nine Months Ended September 30, 2023				
	Retail	Bulk	Services	Manufacturing	Total
Revenue	$ 22,560,998	$ 25,975,483	$ 66,243,328	$ 12,180,519	$ 126,960,328
Cost of revenue	10,355,817	18,010,718	46,466,864	9,489,870	84,323,269
Gross profit	12,205,181	7,964,765	19,776,464	2,690,649	42,637,059
General and administrative expenses	12,668,467	1,080,543	2,855,067	1,289,990	17,894,067
Gain (loss) on asset dispositions and impairments, net	(7,287)	12,270	—	1,933	6,916
Income (loss) from operations	$ (470,573)	$ 6,896,492	$ 16,921,397	$ 1,402,592	24,749,908
Other income, net					522,256
Income before income taxes					25,272,164
Provision for income taxes					4,366,005
Net income from continuing operations					20,906,159
Income from continuing operations attributable to non-controlling interests					463,775
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders					20,442,384
Net loss from discontinued operations					(699,858)
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 19,742,526

Depreciation and amortization expenses for the nine months ended September 30, 2023 for the retail, bulk, services and manufacturing segments were $1,813,280, $2,316,923, $528,258 and $204,320, respectively.

	Nine Months Ended September 30, 2022				
	Retail	Bulk	Services	Manufacturing	Total
Revenue	$ 19,114,653	$ 24,442,324	$ 18,530,427	$ 3,589,333	$ 65,676,737
Cost of revenue	9,404,124	16,781,251	14,849,029	3,177,299	44,211,703
Gross profit	9,710,529	7,661,073	3,681,398	412,034	21,465,034
General and administrative expenses	10,613,975	1,187,909	2,554,721	1,046,853	15,403,458
Gain on asset dispositions and impairments, net	2,699	2,000	16,538	—	21,237
Income (loss) from operations	$ (900,747)	$ 6,475,164	$ 1,143,215	$ (634,819)	6,082,813
Other income, net					548,729
Income before income taxes					6,631,542
Provision for income taxes					83,041
Net income from continuing operations					6,548,501
Income from continuing operations attributable to non-controlling interests					691,042
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders					5,857,459
Net loss from discontinued operations					(1,533,064)
Net income attributable to Consolidated Water Co. Ltd. stockholders					$ 4,324,395

Depreciation and amortization expenses for the nine months ended September 30, 2022 for the retail, bulk, services and manufacturing segments were $1,820,567, $2,114,888, $502,809 and $213,249, respectively.

	As of September 30, 2023				
	Retail	Bulk	Services	Manufacturing	Total
Accounts receivable, net	$ 2,710,301	$ 23,506,832	$ 10,007,905	$ 1,889,809	$ 38,114,847
Inventory, current and non-current	$ 2,920,717	$ 4,881,541	$ 2,539,885	$ 2,621,535	$ 12,963,678
Contract assets	$ —	$ —	$ 6,698,713	$ 2,274,027	$ 8,972,740
Property, plant and equipment, net	$ 26,709,318	$ 20,962,912	$ 805,227	$ 1,586,067	$ 50,063,524
Construction in progress	$ 6,348,267	$ 35,990	$ —	$ 61,792	$ 6,446,049
Intangibles, net	$ —	$ —	$ 1,724,444	$ 684,444	$ 2,408,888
Goodwill	$ 1,170,511	$ 1,948,875	$ 5,320,416	$ 1,985,211	$ 10,425,013
Total segment assets	$ 59,409,833	$ 62,538,537	$ 53,885,758	$ 14,335,484	$ 190,169,612
Assets of discontinued operations					$ 21,427,879
Total assets					$ 211,597,491

	As of December 31, 2022				
	Retail	Bulk	Services	Manufacturing	Total
Accounts receivable, net	$ 2,953,927	$ 16,554,940	$ 5,838,721	$ 1,698,594	$ 27,046,182
Inventory, current and non-current	$ 2,759,659	$ 4,037,684	$ —	$ 3,481,486	$ 10,278,829
Contract assets	$ —	$ —	$ 1,249,069	$ 1,664,653	$ 2,913,722
Property, plant and equipment, net	$ 27,697,490	$ 22,510,658	$ 759,409	$ 1,561,988	$ 52,529,545
Construction in progress	$ 3,643,889	$ —	$ —	$ 61,792	$ 3,705,681
Intangibles, net	$ —	$ —	$ 2,064,444	$ 754,444	$ 2,818,888
Goodwill	$ 1,170,511	$ 1,948,875	$ 5,320,416	$ 1,985,211	$ 10,425,013
Total segment assets	$ 65,853,789	$ 56,118,243	$ 36,319,078	$ 13,054,971	$ 171,346,081
Assets of discontinued operations					$ 21,660,768
Total assets					$ 193,006,849

4. Earnings per share

Earnings per share ("EPS") is computed on a basic and diluted basis. Basic EPS is computed by dividing net income (less preferred stock dividends) available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS assumes the issuance of common shares for all potential common shares outstanding during the reporting period and, if dilutive, the effect of stock options as computed under the treasury stock method.

The following summarizes information related to the computation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders	$ 8,838,123	$ 823,611	$ 20,442,384	$ 5,857,459
Less: preferred stock dividends	(4,295)	(2,925)	(11,305)	(8,609)
Net income from continuing operations available to common shares in the determination of basic earnings per common share	8,833,828	820,686	20,431,079	5,848,850
Total loss from discontinued operations	(232,994)	(505,917)	(699,858)	(1,533,064)
Net income available to common shares in the determination of basic earnings per common share	$ 8,600,834	$ 314,769	$ 19,731,221	$ 4,315,786
Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	15,742,854	15,290,597	15,734,234	15,287,233
Plus:				
Weighted average number of preferred shares outstanding during the period	45,950	35,366	38,385	31,041
Potential dilutive effect of unexercised options and unvested stock grants	139,800	124,313	137,106	121,987
Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	15,928,604	15,450,276	15,909,725	15,440,261

5. Discontinued operations - Mexico project development

In 2010, the Company began the pursuit, through its Netherlands subsidiary, Consolidated Water Cooperatief, U.A. ("CW-Cooperatief"), and its Mexico subsidiary, N.S.C. Agua, S.A. de C.V. ("NSC"), of a project (the "Project") that encompassed the construction, operation and minority ownership of a 100 million gallons per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and accompanying pipelines to deliver water to the Mexican potable water system.

Through a series of transactions that began in 2012, NSC purchased 20.1 hectares of land for approximately $ 21.1 million on which the proposed Project's plant was to be constructed.

Following an assessment by the State of Baja, California (the "State") of the need for such a desalination plant and the passage of enabling legislation in November 2015, the State officially commenced the required public tender for the Project. A consortium (the "Consortium") comprised of NSC, Suez Medio Ambiente México, S.A. de C.V. ("Suez MA"), a subsidiary of SUEZ International, S.A.S., and NuWater S.A.P.I. de C.V. ("NuWater") submitted its tender for the Project in April 2016 and in June 2016, the State designated the Consortium as the winner of the tender process for the Project.

In August 2016, NSC and NuWater incorporated a new company under the name Aguas de Rosarito S.A.P.I. de C.V. ("AdR") to pursue completion of the Project and executed a shareholders agreement for AdR agreeing among other things that (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operation and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operation. NSC initially owned 99.6% of the equity of AdR. In February 2018, CW-Holdings acquired the remaining 0.4% ownership in AdR from NuWater.

On August 22, 2016, the Public Private Partnership Agreement for the Project (the "APP Contract") was executed between AdR, the State Water Commission of Baja, California ("CEA"), and the Government of Baja California, as represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana ("CESPT"). The APP Contract required AdR to design, construct, finance and operate a seawater reverse osmosis desalination plant (and accompanying aqueduct) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican public water system in Tijuana, Baja California and the second phase with a capacity of 50 million gallons per day. The first phase was to be operational within 36 months of commencing construction and the second phase was to be operational by January 2025. The APP Contract further required AdR to operate and maintain the plant and aqueduct for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, the plant and aqueduct would have been transferred to CEA. The APP Contract was subsequently amended by the parties in June 2018 to increase the scope of Phase 1 and to allow for changes in the water tariff due to the changes in the exchange rate for the peso, interest rates and construction costs that had and would occur from the date the APP Contract was signed to the date construction commenced.

On June 29, 2020, AdR received a letter (the "Letter") from the Director General of CEA and the Director General of CESPT terminating the APP Contract. The Letter requested that AdR provide an inventory of the assets that currently comprise the "Project Works" (as defined in the APP Contract) for the purpose of acknowledging and paying the non-recoverable expenses made by AdR in connection with the Project, with such reimbursement to be calculated in accordance with the terms of the APP Contract. The applicable law required that this list of non-recoverable expenses made by AdR in connection with the Project be submitted to CEA and CESPT within 20 business days from the date of receipt of the Letter. AdR initiated an amparo claim before a federal district court in Tijuana, Baja California, to challenge the provision of the applicable law requiring submittal of the list of non-recoverable expenses within the 20 business days term, as AdR considered such term to be unreasonably short due to the magnitude of the Project and the scope of supporting documentation required to be provided with respect to the non-recoverable expenses. AdR obtained an initial provisional suspension of the lapsing of such 20-day term from the court, and on August 10, 2020 the court made such suspension definitive until the completion of the amparo trial. As such, the 20-day term for filing the list of non-recoverable expenses was suspended. Therefore, on August 28, 2020, AdR submitted their list of non-recoverable expenses, including those of NSC, to CEA and CESPT which was comprised of 51,144,525 United States dollars and an additional 137,333,114 Mexican pesos. In February 2021, AdR withdrew this amparo claim, and such withdrawal was accepted by the federal district court in Tijuana. To date, AdR has not received a formal response from CEA or CESPT to its submission of non-recoverable expenses.

The Company believes CW-Cooperatief, as a Netherlands company, has certain rights relating to its investments in NSC and AdR under the *Agreement on Promotion, Encouragement and Reciprocal Protection of Investments between the Kingdom of the Netherlands and the United Mexican States* entered into force as of October 1, 1999 (the "Treaty"). On April 16, 2021, CW-Cooperatief submitted a letter to the President of Mexico and other Mexican federal government officials alleging that the State's termination of the APP Contract constituted a breach by Mexico of its international obligations under the Treaty, entitling CW-Cooperatief to full reparation, including monetary damages. This letter invited Mexico to seek a resolution of this investment dispute through consultation and negotiation, but stated that if the dispute cannot be resolved in this manner, CW-Cooperatief would refer the dispute to the International Centre for the Settlement of International Disputes for arbitration, as provided for in the Treaty. On June 29, 2021, the Mexican Ministry of Economy responded to CW-Cooperatief's letter and proposed to hold a consultation meeting. Two such meetings were held on July 9, 2021 and August 2, 2021 on a confidential basis, without a resolution of the Company's investment dispute.

On February 9, 2022, CW-Cooperatief, filed a Request for Arbitration with the International Centre for Settlement of International Disputes requesting that the United Mexican States pay CW-Cooperatief damages in excess of US$51 million plus MXN$137 million (with the exact amount to be quantified in the proceedings), plus fees, costs and pre- and post-award interest.

CW-Cooperatief intends to pursue vigorously the relief sought in the arbitration, in addition to pursuing all other legal remedies and courses of action available under the operative contracts and applicable law with respect to their rights, damages, fees and expenses. The Company cannot provide any assurances that CW-Cooperatief will be able to obtain the relief sought in the arbitration, and the Company has incurred and will continue to incur legal and other arbitration-related expenses that are material to its consolidated results of operations and cash flows.

During July 2022, the State initiated discussions with the Company to potentially resolve the issues related to the cancellation by the government of the Rosarito desalination plant contract as well as potentially addressing the State's acute water shortage issues. The Company cannot presently determine the outcome of the discussions and the Company has not terminated its efforts to obtain relief through the international arbitration process as a result of these discussions.

The Company cannot provide any assurances that it will be able to obtain reimbursement for any expenses or investments made with respect to the Project.

As a result of the cancellation of the APP Contract, in 2020 the Company discontinued all development activities associated with the Project and commenced active marketing efforts to sell the land NSC purchased for the Project. Accordingly, the assets and liabilities of CW-Cooperatief, NSC and AdR, as well as the costs for legal and administrative activities to pursue reimbursement from the State of Baja California following the cancellation of the APP Contract, have been classified as discontinued operations in the accompanying condensed consolidated financial statements.

Summarized financial information for the discontinued Mexico project development operation is as follows:

	September 30, 2023	December 31, 2022
Cash	$ 189,613	$ 442,252
Accounts receivable	12,675	12,675
Prepaid expenses and other current assets	96,303	76,553
Land	21,126,898	21,126,898
Other assets	2,390	2,390
Total assets of discontinued operations	$ 21,427,879	$ 21,660,768
Total liabilities of discontinued operations	$ 259,853	$ 389,884

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	$ —	$ —	$ —	$ —
Loss from discontinued operations	$ 232,994	$ 505,917	$ 699,858	$ 1,533,064
Depreciation expense	$ —	$ —	$ —	$ —

Mexico Project litigation

a) EWG request of precautionary measures

In January 2018, EWG Water LLC ("EWG") initiated an ordinary mercantile claim against, among others, NSC, and CW-Cooperatief (with AdR being named as a third party to be called to trial) before the Tenth Civil Judge in Tijuana, Baja California for Mercantile Matters (the "Tenth Civil Judge").

In such claim, EWG challenged, among other things, the transactions contemplated under a certain option agreement (entered into in 2012), and therefore, the capital investment transactions occurring in May 2013 that increased the ownership interest of CW-Cooperatief in NSC to 99.99%. On October 1, 2020, and following an order from a Federal

Judge obtained by NSC, the Tenth Civil Judge resolved to (i) move the claim of EWG to arbitration, and (ii) suspend the corresponding ordinary mercantile procedure. Within the above-mentioned claim, the Tenth Civil Judge granted EWG certain preliminary measures against NSC, which were later overturned by an Upper Court.

In July 2023, EWG filed a motion before a local court in Playas de Rosarito, Baja California (the "Rosarito Court") to obtain precautionary measures consisting of the securing of assets owned by NSC (particularly real estate), as a procedure prior to the commencement of an arbitration that allegedly would be initiated by EWG against NSC to claim the payment of an indemnification for damages derived from a so-called simulation of legal acts. In the opinion of the Rosarito Court, such motion did not require notification to NSC or the presentation of counterarguments by NSC to the motion prior to securing the assets of NSC.

On July 28, 2023, the Rosarito Court issued a resolution in which it: (i) granted the precautionary measures requested by EWG, subject to the posting of a bond in the amount of MXN$1,500,000 (One Million Five Hundred Thousand Mexican Pesos), and (ii) ordered that once the precautionary measures were executed, NSC would be summoned to that procedure and EWG would have three business days to prove that it initiated the arbitration.

To the Company's knowledge, EWG has not posted the bond set by the Rosarito Court. Therefore: (i) the precautionary measures have not been enforced, (ii) no securing or attachment has been registered against the real estate of NSC; and (iii) NSC has not been formally summoned to this procedure.

Furthermore, NSC is unaware of any arbitration commenced by EWG regarding this matter.

b) NSC amparo lawsuit

On August 16, 2023, NSC filed an amparo suit (i.e., application for constitutional relief) before the Eleventh Federal District Court in Tijuana ("Eleventh Federal Court") against the precautionary measures granted to EWG by the Rosarito Court.

In its amparo suit, NSC also requested the Eleventh Federal Court to grant an order to put on hold said precautionary measures. A preliminary order to stay was granted by the Eleventh Federal Court, followed by a definitive injunction, subject to the posting of a guarantee. NSC has submitted the guarantee to the court.

The Company cannot presently determine what impact the resolution of this matter may have on its consolidated financial statements.

6. Leases

The Company's leases consist primarily of leases for office and warehouse space. For leases with terms greater than twelve months, the related asset and obligation are recorded at the present value of the lease payments over the term. Many of these leases contain rental escalation clauses which are factored into the determination of the lease payments when appropriate. When available, the lease payments are discounted using the rate implicit in the lease; however, the Company's current leases do not provide a readily determinable implicit rate. Therefore, the Company's incremental borrowing rate is estimated to discount the lease payments based on information available at the lease commencement.

These leases contain both lease and non-lease components, which the Company has elected to treat as a single lease component. The Company elected not to recognize leases that have an original lease term, including reasonably certain renewal or purchase obligations, of twelve months or less in its condensed consolidated balance sheets for all classes of underlying assets. Lease costs for such short-term leases are expensed on a straight-line basis over the lease term.

The land used by the Company to operate its seawater desalination plants in the Cayman Islands and The Bahamas is owned by the Company or leased to the Company for immaterial annual amounts and is not included in the lease amounts presented in the condensed consolidated balance sheets.

All lease assets denominated in a foreign currency are measured using the exchange rate at the commencement of the lease. All lease liabilities denominated in a foreign currency are remeasured using the exchange rate as of the condensed consolidated balance sheet date.

Lease assets and liabilities

The following table presents the lease-related assets and liabilities and their respective classification on the condensed consolidated balance sheets:

	September 30, 2023	December 31, 2022
ASSETS		
Current		
Prepaid expenses and other current assets	$ 192,394	$ 35,624
Current assets of discontinued operations	813	7,979
Noncurrent		
Operating lease right-of-use assets	1,720,637	2,058,384
Total lease right-of-use assets	$ 1,913,844	$ 2,101,987
LIABILITIES		
Current		
Current maturities of operating leases	$ 471,506	$ 546,851
Current liabilities of discontinued operations	743	7,361
Noncurrent		
Noncurrent operating leases	1,481,005	1,590,542
Total lease liabilities	$ 1,953,254	$ 2,144,754
Weighted average remaining lease term:		
Operating leases	6.2 years	6.6 years
Operating leases - discontinued operations	0.1 years	0.8 years
Weighted average discount rate:		
Operating leases	5.45%	5.11%
Operating leases - discontinued operations	4.96%	4.96%

The components of lease costs were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease costs	$ 181,201	$ 168,910	$ 544,530	$ 523,107
Short-term lease costs	78,189	25,345	128,992	75,629
Lease costs - discontinued operations	14,942	10,185	34,371	29,767
Total lease costs	$ 274,332	$ 204,440	$ 707,893	$ 628,503

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended September 30,	
	2023	2022
Cash paid for amounts included in measurement of liabilities:		
Operating cash outflows for operating leases	$ 589,354	$ 582,044
Operating cash outflows for operating leases - discontinued operations	8,405	6,923

Future lease payments relating to the Company's operating lease liabilities from continuing operations as of September 30, 2023 were as follows:

Years ending December 31,	Total
2023	$ 175,649
2024	482,694
2025	361,961
2026	274,959
2027	229,416
Thereafter	778,460
Total future lease payments	2,303,139
Less: imputed interest	(350,628)
Total lease obligations	1,952,511
Less: current obligations	(471,506)
Noncurrent lease obligations	$ 1,481,005

7. Fair value

As of September 30, 2023 and December 31, 2022, the carrying amounts of cash equivalents, accounts receivable, accounts payable, accrued expenses, accrued compensation, dividends payable and other current liabilities approximate their fair values due to the short-term maturities of these instruments.

Under US GAAP, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. US GAAP guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company reviews its fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

As of September 30, 2023 and December 31, 2022, the Company does not have assets and liabilities measured at fair value to present in the fair value hierarchy.

8. Contingencies

Cayman Water

The Company sells water through its Cayman Water retail operations under a license issued in July 1990 by the Cayman Islands government (the "1990 license") that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, the Company continues to supply water under the terms of the 1990 license, as further discussed in the following paragraph. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman Island: Seven Mile Beach and West Bay. For the three months ended September 30, 2023 and 2022, the Company generated approximately 14% and 25%, respectively, of its consolidated revenue and 23% and 44%, respectively, of its consolidated gross profit from the retail water operations conducted under the 1990 license. For the nine months ended September 30, 2023 and 2022, the Company generated approximately 18% and 29%, respectively, of its consolidated revenue and 29% and 45%, respectively, of its consolidated gross profit from the retail water operations conducted under the 1990 license.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the 1990 license expired on January 31, 2018. The Company continues to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with its understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. The Company continues to pay a royalty of 7.5% of the revenue that Cayman Water collects as required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office ("OfReg"). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for the economic regulation of the water utility sector and the negotiations with the Company for a new retail license from the WAC to OfReg in May 2017. The Company began license negotiations with OfReg in July 2017 and such negotiations are ongoing. The Company has been informed during its retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of its license in a manner that could significantly reduce the operating income and cash flows the Company has historically generated from its retail license.

The Company is presently unable to determine what impact the resolution of its retail license negotiations will have on its consolidated financial condition or results of operations but such resolution could result in a material reduction (or the loss) of the operating income and cash flows the Company has historically generated from Cayman Water's retail operations and could require the Company to record impairment losses to reduce the carrying values of its retail segment assets. Such impairment losses could have a material adverse impact on the Company's consolidated financial condition and results of operations.

CW-Bahamas

CW-Bahamas' accounts receivable balances (which include accrued interest) due from the WSC amounted to $ 23.2 million and $16.3 million as of September 30, 2023 and December 31, 2022, respectively. Approximately 76% and 65% of the accounts receivable balances were delinquent as of those dates, respectively.

From time to time, CW-Bahamas has experienced delays in collecting its accounts receivable from the WSC. When these delays occur, the Company holds discussions and meetings with representatives of the WSC and The Bahamas government, and as a result, payment schedules are developed for WSC's delinquent accounts receivable. All previous delinquent accounts receivable from the WSC, including accrued interest thereon, were eventually paid in full. Based upon this payment history, CW-Bahamas has never been required to provide an allowance for doubtful accounts for any of its accounts receivable, despite the periodic accumulation of significant delinquent balances.

CW-Bahamas recently held discussions with the Ministry of Finance of the Government of The Bahamas which stated that the Government intends to return all of CW-Bahamas' accounts receivable from the WSC to current status.

In a report dated October 6, 2022, Moody's Investor Services ("Moody's") downgraded the Government of The Bahamas' long-term issuer and senior unsecured ratings to B1 from Ba3. Moody's also lowered The Bahamas' local currency ceiling to Baa3 from Baa2 and its foreign currency ceiling to Ba1 from Baa3. Moody's iterated these ratings in April 2023, noting that such ratings are "stable." Based upon its review of this Moody's correspondence, the Company continues to believe that no allowance for doubtful accounts is required for CW-Bahamas' accounts receivable from the WSC.

If CW-Bahamas is unable to collect a sufficient portion of its delinquent accounts receivable, one or more of the following events may occur: (i) CW-Bahamas may not have sufficient liquidity to meet its obligations; (ii) the Company may be required to cease the recognition of revenue on CW-Bahamas' water supply agreements with the WSC; and (iii) the Company may be required to provide an allowance for doubtful accounts for CW-Bahamas' accounts receivable. Any of these events could have a material adverse impact on the Company's consolidated financial condition, results of operations, and cash flows.

9. Related party transactions

The Company, through PERC, purchased engineering and technology support services from various companies formerly affiliated with PERC, as a minority shareholder in these companies was also a minority shareholder of PERC. On January 4, 2023, as a result of CW-Holdings' exercise of a call option in October 2022, CW-Holdings purchased the remaining 39% ownership interest in PERC. After giving effect to this purchase, CW-Holdings owns 100% of the outstanding capital stock of PERC and, consequently, transactions with the formerly affiliated companies no longer constitute related party transactions. During the three and nine months ended September 30, 2022, the Company made total purchases of services from these companies of approximately $685,000 and $2,166,000, respectively. These total purchases are included in the Company's cost of revenue in the accompanying condensed consolidated statements of income.

PERC entered into a sublease agreement with one of these formerly affiliated companies that commenced on March 14, 2021 and ended August 31, 2021. This lease was extended on a month-to-month basis subsequent to August 31, 2021. During the three and nine months ended September 30, 2022, the Company recognized approximately $24,000 and $73,000, respectively, of expense related to this lease. This lease expense is included in the Company's general and administrative expenses in the accompanying condensed consolidated statements of income.

The total amount of accounts payable outstanding to these companies as of December 31, 2022, was approximately $404,000.

10. Impact of recent accounting standards

Adoption of new accounting standards:

Financial Accounting Standard Update ("ASU") 2016-13, *Measurement of Credit Losses on Financial Instruments,* and related amendments, introduces new guidance which makes substantive changes to the accounting for credit losses. This guidance introduces the current expected credit losses ("CECL") model which applies to financial assets subject to credit losses and measured at amortized cost, as well as certain off-balance sheet credit exposures. The CECL model requires an entity to estimate credit losses expected over the life of an exposure, considering information about historical events, current conditions, and reasonable and supportable forecasts and is generally expected to result in earlier recognition of credit losses. The Company adopted this guidance as of January 1, 2023 using the modified retrospective approach. The impact of this adoption was not material to the Company's consolidated financial statements.

Effect of newly issued but not yet effective accounting standards:

None.

11. Subsequent events

On November 2, 2023 (the “Closing Date”), the Company, through its wholly-owned indirect subsidiary, PERC, entered into a stock purchase agreement (the “Purchase Agreement”) with Linda Ramey and Robert W. Ramey (collectively, the “Sellers”). Pursuant to the terms of the Purchase Agreement, effective as of October 1, 2023 (the “Effective Date”), PERC purchased a 100% ownership interest in Ramey Environmental Compliance, Inc., a Colorado company (“REC”), for an aggregate purchase price of approximately $4,200,000. Of the total purchase price, (a) approximately $ 3,850,000 was paid on the Closing Date and (b) $350,000 will be paid on the earlier of (i) the second anniversary of the Effective Date and (ii) the expiration of the “Term” (as defined in the respective employment agreements between REC and the Sellers), provided that neither of the employment agreements between REC and the sellers has been terminated by REC for “Cause” (as defined in the employment agreements) or by the Sellers without “Good Reason” (as defined in the employment agreements) before the expiration of the “Term” (as defined in the employment agreements). The Company has not yet completed its initial accounting for this business combination related to its opening balance sheet as of the date of these financial statements.

REC operates and maintains water and wastewater treatment facilities and provides technical services to clients throughout the Rocky Mountain and Eastern Plains Regions of Colorado. REC is headquartered in Frederick, Colorado.

The Company evaluated subsequent events through the time of the filing of this report on Form 10-Q. Other than as disclosed in these condensed consolidated financial statements, the Company is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on its condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our future revenue, future plans, objectives, expectations and events, assumptions and estimates. Forward-looking statements can be identified by use of the words or phrases "will," "will likely result," "are expected to," "will continue," "estimate," "project," "potential," "believe," "plan," "anticipate," "expect," "intend," or similar expressions and variations of such words. Statements that are not historical facts are based on our current expectations, beliefs, assumptions, estimates, forecasts and projections for our business and the industry and markets related to our business.

The forward-looking statements contained in this report are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Important factors which may affect these actual outcomes and results include, without limitation:

- tourism and weather conditions in the areas we serve;
- the economic, political and social conditions of each country in which we conduct or plan to conduct business;
- our relationships with the government entities and other customers we serve;
- regulatory matters, including resolution of the negotiations for the renewal of our retail license on Grand Cayman;
- our ability to successfully enter new markets; and
- other factors, including those "Risk Factors" set forth under Part II, Item 1A. "Risk Factors" in this Quarterly Report and in our 2022 Annual Report on Form 10-K.

The forward-looking statements in this Quarterly Report speak as of its date. We expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

References herein to "we," "our," "ours" and "us" refer to Consolidated Water Co. Ltd. and its subsidiaries.

Critical Accounting Policies and Estimates

Our critical accounting policies relate to (i) the valuations of our goodwill, intangible assets and long-lived assets; and (ii) revenue recognition on our construction and manufacturing contracts.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Our actual results could differ significantly from such estimates and assumptions.

The application of our critical accounting policies involves estimates or assumptions that constitute "critical accounting estimates" for us because:

- the nature of these estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimates and assumptions on financial condition and results of operations is material.

Goodwill and Intangible Assets

Goodwill represents the excess cost of an acquired business over the fair value of the assets and liabilities of the acquired business as of the date of acquisition. Goodwill and intangible assets recorded as a result of a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or upon the identification of a triggering event. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. We evaluate the possible impairment of goodwill annually as part of our reporting process for the fourth quarter of each fiscal year. Management identifies our reporting units for goodwill impairment testing purposes, which consist of Cayman Water, the bulk segment (which is comprised of CW-Bahamas and OC-Cayman), PERC, and the manufacturing segment (i.e., Aerex), and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. We determine the fair value of each reporting unit and compare these fair values to the carrying amounts of the reporting units. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an impairment loss is recorded.

For 2022, we elected to assess qualitative factors to determine whether it was necessary to perform the quantitative goodwill impairment testing we have conducted in prior years for all reporting units other than the manufacturing unit. We assessed the relevant events and circumstances to evaluate whether it is more likely than not that the fair values of such reporting units are less than their carrying values. The events and circumstances assessed for each unit included macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, and other relevant events. Based upon this qualitative assessment we determined that it is more likely than not that the fair values of our Cayman Water and bulk segment reporting units exceeded their carrying values as of December 31, 2022. Based upon our negotiated, arms-length purchase of the remaining 39% equity interest in PERC from its minority shareholders for $7.8 million in January 2023, the fair value of our PERC reporting unit exceeded its carrying value by 79% as of December 31, 2022.

Due to the factors discussed in the following paragraphs, we elected to test the goodwill associated with our manufacturing reporting unit for possible impairment using the quantitative tests applied in prior years.

Approximately 80% of Aerex's revenue, and 89% of Aerex's gross profit, for the year ended December 31, 2020 were generated from sales to one customer. While Aerex sells various products to this customer, Aerex's revenue from this customer has historically been derived primarily from one specialized product. In October 2020, this customer informed Aerex that, for inventory management purposes, it was suspending its purchases of the specialized product from Aerex following 2020 for a period of approximately one year. This customer informed Aerex at that time that it expected to recommence its purchases of the specialized product from Aerex beginning with the first quarter of 2022. As a result of this anticipated loss of revenue for Aerex, we updated our projections for our manufacturing reporting unit's future cash flows. Such projections assumed, in part, that Aerex's major customer would recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020. Based upon these updated projections, we tested our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. As a result of these impairment tests, we determined that the estimated fair value of our manufacturing reporting unit exceeded its carrying value by approximately 31% as of December 31, 2020.

In late July 2021, this former major customer communicated to Aerex that it expected to recommence its purchases of the specialized product from Aerex in 2022 and subsequent years, but informed Aerex that such purchases would be at substantially reduced annual amounts, as compared to the amounts it had purchased from Aerex in 2020 and prior years. Our updated sales estimate for this customer based on this new information was substantially below the sales we anticipated to this customer for 2022 and subsequent years that we used in the discounted cash flow projections we prepared for purposes of testing our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. Furthermore, Aerex's efforts to replace the revenue previously generated from this customer with revenue from existing and new customers were adversely impacted by negative economic conditions (caused in part by the COVID-19 pandemic). These negative economic conditions also increased Aerex's raw material costs, resulted in raw material shortages and extended delivery times for such materials, and adversely affected the overall financial condition of Aerex's current and prospective customers. Accordingly, in light of this new information from Aerex's former major customer, and the on-going weak economic conditions that we believed would continue through 2022, we updated our projections of future cash flows for the manufacturing reporting unit and tested its goodwill for possible impairment as of June 30, 2021 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. Based upon this testing, we determined that the carrying value of our manufacturing reporting unit exceeded its fair value by $2.9 million, and we recorded an impairment loss to reduce our manufacturing segment's goodwill by this amount for the three months ended June 30, 2021.

For 2022, we estimated the fair value of our manufacturing reporting unit by applying the discounted cash flow method, which relied upon seven-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These seven-year projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented the estimated cost of capital for market participants at the time of the analysis. We also estimated the fair value of our manufacturing reporting unit for the year ended December 31, 2022 by applying the guideline public company method. We weighted the fair values estimated for our manufacturing reporting unit under each method and summed such weighted fair values to estimate the overall fair value for the reporting unit. The respective weightings we applied to each method for the year ended December 31, 2022 were 80% to the discounted cash flow method and 20% to the guideline public company method.

The fair value we estimated for our manufacturing reporting unit exceeded its carrying amount by 63% as of December 31, 2022.

We believe that the inherent uncertainties associated with the accounting estimates and assumptions we use for our estimates of our manufacturing reporting unit's fair value have increased due to the current, less predictable economic conditions, which have resulted in increasing raw material prices, extended and unexpected delays in the procurement and delivery of our raw materials, and have also, we believe, adversely affected our customers. Should interest rates rise significantly in the future we would likely be required to increase the discount rate we use under the discounted cash flow method we use to estimate the fair value of this reporting unit, and such increased discount rate in and of itself could decrease the estimated fair value of our manufacturing reporting unit under the discounted cash flow method.

As noted previously, based upon our estimation prepared as of December 31, 2022, the fair value of our manufacturing reporting unit exceeded its carrying value by 63%. However, if we determine in the future that Aerex's discounted future cash inflows will be less than our present expectations, we may be required to record additional impairment losses to reduce the remaining carrying values of our manufacturing reporting unit's goodwill and its remaining unamortized intangible assets balances, which amounted to $1,985,211 and $684,444, respectively, as of September 30, 2023. Any such impairment losses could have a material adverse impact on our consolidated results of operations.

Long-lived Assets

We review the carrying amounts of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, we recognize an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measure the impairment loss based on the difference between the carrying amount and fair value.

On June 29, 2020, our Mexico subsidiary, AdR, received a letter from the State of Baja California (the "State") terminating AdR's contract with the State involving the construction and operation of a desalination plant in Rosarito California and accompanying aqueduct to deliver the water produced by this plant to the Mexican public water system. As a result of the cancellation of this contract, we recorded an impairment loss for rights of way acquired for the contract's proposed aqueduct of approximately ($3.0 million) in 2020.

Construction and Manufacturing Contract Revenue Recognition

We design, construct, and sell desalination infrastructure through DesalCo, which serves customers in the Cayman Islands, The Bahamas, and the British Virgin Islands. We design, construct, and sell wastewater and water reuse infrastructure in the U.S. through PERC. Aerex, is a custom and specialty manufacturer in the U.S. of water treatment-related systems and products applicable to commercial, municipal and industrial water production.

We recognize revenue for our construction and our specialized/custom manufacturing contracts over time under the input method using costs incurred (which represents work performed) to date relative to the total estimated costs at completion to measure progress toward satisfying a contract's performance obligations as such measure best reflects the transfer of control of the promised good to the customer. Contract costs include labor, materials, subcontractor costs and other expenses. We follow this method since we can make reasonably dependable estimates of the revenue and costs applicable to the various stages of a contract. Under this input method, we record revenue and recognize profit or loss as work on the contract progresses. We estimate total costs to be incurred and profit to be earned on each long-term, fixed price contract prior to commencement of work on the contract and update these estimates as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is that percentage of total estimated revenue that incurred costs to date comprises of estimated total contract costs. Due to the extended time it may take to complete many of our contracts and the scope and nature of the work required to be performed on those contracts, the estimations of total revenue and costs at completion are complicated and subject to many variables and, accordingly, are subject to changes. When adjustments in estimated total contract revenue or estimated total contract costs are required, any changes from prior estimates are recognized in the current period for the inception-to-date effect of such changes. We recognize the full amount of any estimated loss on a contract at the time the estimates indicate such a loss.

The cost estimates we prepare in connection with our construction and manufacturing contracts are subject to inherent uncertainties. Because we base our contract prices on our estimation of future construction and manufacturing costs, the profitability of our construction and manufacturing contracts is highly dependent on our ability to estimate these costs accurately, as almost all of our construction and manufacturing contracts are fixed-price contracts. The cost of materials, labor and subcontractors could increase significantly after we sign a construction or manufacturing contract, which could cause the gross profit for a contract to decline from our previous estimates, adversely affecting our recognition of revenue and gross profit for the contract. Construction or manufacturing contract costs that significantly exceed our initial estimates could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included under Part I, Item 1. “Financial Statements” of this Quarterly Report and our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for our fiscal year ended December 31, 2022 (“2022 Form 10-K”) and the information set forth under Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” of our 2022 Form 10-K.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Discontinued Operations – Mexico Project Development

In 2010, we began the pursuit, through our Netherlands subsidiary, Consolidated Water Cooperatief, U.A. (“CW-Cooperatief”), and our Mexico subsidiary, N.S.C. Agua, S.A. de C.V. (“NSC”), of a project (the “Project”) that encompassed the construction, operation and minority ownership of a 100 million gallons per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and accompanying pipelines to deliver water to the Mexican potable water system.

Through a series of transactions that began in 2012, NSC purchased 20.1 hectares of land for approximately $21.1 million on which the proposed Project's plant was to be constructed.

Following an assessment by the State of Baja, California (the “State”) of the need for such a desalination plant and the passage of enabling legislation in November 2015, the State officially commenced the required public tender for the Project. A consortium (the “Consortium”) comprised of NSC, Suez Medio Ambiente México, S.A. de C.V. (“Suez MA”), a subsidiary of SUEZ International, S.A.S., and NuWater S.A.P.I. de C.V. (“NuWater”) submitted its tender for the Project in April 2016 and in June 2016, the State designated the Consortium as the winner of the tender process for the Project.

In August 2016, NSC and NuWater incorporated a new company under the name Aguas de Rosarito S.A.P.I. de C.V. (“AdR”) to pursue completion of the Project and executed a shareholders agreement for AdR agreeing among other things that (i) AdR would purchase the land and other Project assets from NSC on the date that the Project begins commercial operation and (ii) AdR would enter into a Management and Technical Services Agreement with NSC effective on the first day that the Project begins commercial operation. NSC initially owned 99.6% of the equity of AdR. In February 2018, we acquired the remaining 0.4% ownership in AdR from NuWater.

On August 22, 2016, the Public Private Partnership Agreement for the Project (the "APP Contract") was executed between AdR, the State Water Commission of Baja California ("CEA"), the Government of Baja California as represented by the Secretary of Planning and Finance and the Public Utilities Commission of Tijuana ("CESPT"). The APP Contract required AdR to design, construct, finance and operate a seawater reverse osmosis desalination plant (and accompanying aqueduct) with a capacity of up to 100 million gallons per day in two phases: the first with a capacity of 50 million gallons per day and an aqueduct to the Mexican potable water system in Tijuana, Baja California and the second phase with a capacity of 50 million gallons per day. The first phase was to be operational within 36 months of commencing construction and the second phase was to be operational by July 2024. The APP Contract further required AdR to operate and maintain the plant and aqueduct for a period of 37 years starting from the commencement of operation of the first phase. At the end of the operating period, ownership of the plant and aqueduct would have been transferred to CEA. The APP Contract was subsequently amended by the parties in June 2018 to increase the scope of Phase 1 and to allow for changes in the water tariff due to the changes in the exchange rate for the peso, interest rates and construction costs that had and would occur from the date the APP Contract was signed to the date construction commenced.

On June 29, 2020, AdR received a letter (the "Letter") from the Director General of CEA and the Director General of CESPT terminating the APP Contract. The Letter requested that AdR provide an inventory of the assets that currently comprise the "Project Works" (as defined in the APP Contract) for the purpose of acknowledging and paying the non-recoverable expenses made by AdR in connection with the Project, with such reimbursement to be calculated in accordance with the terms of the APP Contract. The applicable law required that this list of non-recoverable expenses made by AdR in connection with the Project be submitted to CEA and CESPT within 20 business days from the date of receipt of the Letter. AdR initiated an amparo claim before a federal district court in Tijuana, Baja California, to challenge the provision of the applicable law requiring submittal of the list of non-recoverable expenses within the 20 business days term, as AdR considered such term to be unreasonably short due to the magnitude of the Project and the scope of supporting documentation required to be provided with respect to the non-recoverable expenses. AdR obtained an initial provisional suspension of the lapsing of such 20-day term from the court, and on August 10, 2020 the court made such suspension definitive until the completion of the amparo trial. As such, the 20-day term for filing the list of non-recoverable expenses was suspended. Therefore, on August 28, 2020, AdR submitted their list of non-recoverable expenses, including those of NSC, to CEA and CESPT which was comprised of 51,144,525 United States dollars and an additional 137,333,114 Mexican pesos. In February 2021, AdR withdrew this amparo claim, and such withdrawal was accepted by the federal district court in Tijuana. To date, AdR has not received a formal response from CEA or CESPT to its submission of non-recoverable expenses.

We believe CW-Cooperatief, as a Netherlands company, has certain rights relating to its investments in NSC and AdR under the *Agreement on Promotion, Encouragement and Reciprocal Protection of Investments between the Kingdom of the Netherlands and the United Mexican States* entered into force as of October 1, 1999 (the "Treaty"). On April 16, 2021, CW-Cooperatief submitted a letter to the President of Mexico and other Mexican federal government officials alleging that the State's termination of the APP Contract constituted a breach by Mexico of its international obligations under the Treaty, entitling CW-Cooperatief to full reparation, including monetary damages. This letter invited Mexico to seek a resolution of this investment dispute through consultation and negotiation, but stated that if the dispute cannot be resolved in this manner, CW-Cooperatief would refer the dispute to the International Centre for the Settlement of International Disputes for arbitration, as provided for in the Treaty. On June 29, 2021, the Mexican Ministry of Economy responded to CW-Cooperatief's letter and proposed to hold a consultation meeting. Two such meetings were held on July 9, 2021 and August 2, 2021 on a confidential basis, without a resolution of our investment dispute.

On February 9, 2022, CW-Cooperatief, filed a Request for Arbitration with the International Centre for Settlement of International Disputes requesting that the United Mexican States pay CW-Cooperatief damages in excess of US$51 million plus MXN$137 million (with the exact amount to be quantified in the proceedings), plus fees, costs and pre- and post-award interest.

CW-Cooperatief intends to pursue vigorously the relief sought in the arbitration, in addition to pursuing all other legal remedies and courses of action available under the operative contracts and applicable law with respect to its rights, damages, fees and expenses. We cannot provide any assurances that CW Cooperatief will be able to obtain the relief sought in the arbitration, and we have incurred and will continue to incur legal and other arbitration-related expenses that are material to our consolidated results of operations and cash flows.

During July 2022, the State initiated discussions with us to potentially resolve the issues related to the cancellation by the government of the Rosarito desalination plant contract as well as potentially addressing the State's acute water shortage issues. We cannot presently determine the outcome of the discussions and we have not terminated our efforts to obtain relief through the international arbitration process as a result of these discussions.

We cannot provide any assurances that we will be able to obtain reimbursement for any expenses or investments made with respect to the Project.

As a result of the cancellation of the APP Contract, in 2020 we discontinued all development activities associated with the Project and commenced active marketing efforts to sell the land NSC purchased for the Project. Accordingly, the assets and liabilities of CW-Cooperatief, NSC and AdR, as well as the costs for our legal and administrative activities to pursue reimbursement from the State of Baja California following the cancellation of the APP Contract, are classified as discontinued operations in the accompanying consolidated financial statements. Our net losses from discontinued operations for the three months ended September 30, 2023 and 2022 were ($232,994) and ($505,917), respectively.

Consolidated Results

Including discontinued operations, net income attributable to Consolidated Water Co. Ltd. stockholders for 2023 was $8,605,129 ($0.54 per share on a fully diluted basis), as compared to net income of $317,694 ($0.02 per share on a fully diluted basis) for 2022.

The following discussion and analysis of our consolidated results of operations and results of operations by segment for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 relates only to our continuing operations.

Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders for 2023 was $8,838,123 ($0.55 per share on a fully diluted basis), as compared to a net income from continuing operations of $823,611 ($0.05 per share on a fully diluted basis) for 2022.

Revenue for 2023 increased to $49,854,075 from $25,051,705 in 2022, reflecting revenue increases in all segments except for the bulk segment which had a slight decrease. Gross profit for 2023 was $16,614,428 (33% of total revenue) as compared to $6,843,773 (27% of total revenue) for 2022. For further discussion of revenue and gross profit see the "Results by Segment" discussion and analysis that follows.

General and administrative ("G&A") expenses on a consolidated basis increased to $5,872,490 for 2023 as compared to $5,610,650 for 2022. The most significant increase in G&A expenses for 2023 relates to insurance expense, which increased by almost $339,000. Employee costs also increased by approximately $318,000 from 2022 to 2023 due to pay raises, new hires, and increased stock compensation expense. Decreases in various other G&A expense categories served to partially offset these increases in insurance expense and employee costs.

Other income (expense), net, increased to $236,066 for 2023 as compared to an expense of ($168,980) for 2022 in part due to an unrealized loss recorded in 2022 of $247,000 for the valuation of the put/call options associated with the initial acquisition of a controlling interest in PERC. We exercised our call option in the fourth quarter of 2022 and acquired the remaining 39% of PERC in January 2023. In addition, interest income increased by approximately $140,000 in 2023 primarily due to the increase in CW-Bahamas delinquent accounts receivable balances, on which we earn interest income.

Results by Segment

Retail Segment:

The retail segment recorded a loss from operations of ($381,142) for 2023 as compared to loss from operations of ($774,283) for 2022.

Revenue generated by our retail water operations increased to $7,216,574 in 2023 from $6,274,650 in 2022 due to a 16% increase in the volume of water sold. This sales volume increase reflects increased tourist activity on Grand Cayman as tourism on the island in 2022 was lower than historical levels due to the lingering impact of the COVID-19 pandemic. Retail revenue also increased by approximately $92,000 due to higher energy costs which increased the energy pass-through component of our retail water rates.

Retail segment gross profit increased to $3,844,683 (53% of retail revenue) for 2023 from $3,042,677 (48% of retail revenue) for 2022 due to the revenue increase.

Consistent with prior periods, we record all non-direct G&A expenses in our retail segment and do not allocate any of these non-direct costs to our other three business segments. Retail G&A expenses increased to $4,225,825 for 2023 as compared to $3,818,459 for 2022. The most significant increase in G&A expenses for 2023 relates to employee costs, which increased by $260,000 due to pay raises and increased stock compensation expense.

Bulk Segment:

The bulk segment contributed $2,305,110 and $1,749,848 to our income from operations for 2023 and 2022, respectively.

Bulk segment revenue was $8,488,615 and $8,667,931 for 2023 and 2022, respectively. The impact of a 6% increase in the volume of water sold in 2023 on bulk segment revenue was more than offset by a decrease in the price of energy for CW-Bahamas, which decreased the energy pass-through component of CW-Bahamas' rates.

Gross profit for our bulk segment was $2,652,778 (31% of bulk revenue) and $2,221,382 (26% of bulk revenue) for 2023 and 2022, respectively. Gross profit as a percentage of revenue increased in 2023 as compared to 2022 due to a reduction in repairs and maintenance expenses of almost $417,000.

Bulk segment G&A expenses decreased to $347,668 for 2023 as compared to $473,534 for 2022 as a result of incremental bank fees of approximately $123,000 in 2022 attributable to cash transfers from CW-Bahamas to our parent company in the Cayman Islands.

Services Segment:

The services segment contributed $8,391,184 and $460,434 to our income from operations for 2023 and 2022, respectively.

Services segment revenue increased to $29,427,664 for 2023 from $8,731,124 for 2022. Construction revenue increased to $24,204,446 in 2023 from $4,781,613 in 2022 with this increase resulting from (i) PERC's progress on its contract with Liberty (Litchfield Park Water & Sewer) Corp. ("Liberty Utilities") for the construction of a water treatment plant in Goodyear, Arizona; and (ii) progress on our contract with the WAC for the construction of its Red Gate plant. We recognized approximately $20.0 million in revenue for the Liberty Utilities contract in 2023. This contract is expected to be substantially completed by the end of the second quarter of 2024. Revenue generated under operations and maintenance contracts was $5,021,081 and $3,394,142 in 2023 and 2022, respectively. The increase in operations and maintenance revenue from 2022 to 2023 is attributable to new contracts and increased revenue on existing contracts.

Gross profit for the services segment was $9,253,019 (31% of services revenue) in 2023 as compared to $1,397,142 (16% of services revenue) for 2022. During 2023, we adjusted our previous estimates of the total costs to be incurred for the Liberty Utilities contract. These changes in accounting estimates primarily arose as a result of actual construction costs and efficiencies for the Liberty Utilities contract that differed favorably from our previous expectations. These changes in accounting estimates resulted in an increase in the services segment's revenue, gross profit and income from operations of $1,787,275 for 2023 under the input method we use to account for construction contracts and was a significant contributing factor in the increase in gross profit as a percentage of services revenue from 2022 to 2023. The remainder of the increase in gross profit as a percentage of revenue from 2022 to 2023 reflects improved margins on both our construction and operations and maintenance activities.

G&A expenses for the services segment remained relatively consistent at $861,835 for 2023 as compared to $936,708 for 2022.

Manufacturing Segment:

The manufacturing segment contributed $426,786 to our income from operations for 2023 as compared to a loss incurred from operations of ($199,377) in 2022.

Manufacturing revenue was $4,721,222 and $1,378,000 for 2023 and 2022, respectively. The growth in manufacturing revenue for 2023 reflects increased production activity due to relief in supply chain and economic conditions that had resulted in significant product delivery delays in 2022.

Manufacturing gross profit was $863,948 (18% of manufacturing revenue) for 2023 as compared to a gross profit of $182,572 (13% of manufacturing revenue) for 2022. The increase in manufacturing gross profit in dollars reflects the increase in revenue. Gross profit as a percentage of revenue increased due to increased revenue and the resulting reduced impact of fixed factory overhead on this financial measure.

G&A expenses for the manufacturing segment remained relatively consistent at $437,162 for 2023 as compared to $381,949 for 2022.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Discontinued Operations – Mexico Project Development

As previously discussed, on June 29, 2020, the State of Baja California cancelled its APP Contract with AdR for the Project. As a result of the cancellation of the APP Contract, during the three months ended June 30, 2020, we discontinued all development activities associated with the Project and commenced active marketing efforts to sell the land NSC purchased for the Project.

Our net loss from discontinued operations for the nine months ended September 30, 2023 and 2022 was ($699,858) and ($1,533,064), respectively, and consists of the costs for our legal and administrative activities to pursue reimbursement from the State of Baja California following the cancellation of the APP Contract.

Consolidated Results

Including discontinued operations, net income attributable to Consolidated Water Co. Ltd. stockholders for 2023 was $19,742,526 ($1.24 per share on a fully diluted basis), as compared to a net income of $4,324,395 ($0.28 per share on a fully diluted basis) for 2022.

The following discussion and analysis of our consolidated results of operations and results of operations by segment for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 relates only to our continuing operations.

Net income from continuing operations attributable to Consolidated Water Co. Ltd. stockholders for 2023 was $20,442,384 ($1.28 per share on a fully diluted basis), as compared to a net income from continuing operations of $5,857,459 ($0.38 per share on a fully diluted basis) for 2022.

Revenue for 2023 increased to $126,960,328 from $65,676,737 in 2022, reflecting revenue increases in all four of our segments. Gross profit for 2023 was $42,637,059 (34% of total revenue) as compared to $21,465,034 (33% of total revenue) for 2022. For further discussion of revenue and gross profit see the "Results by Segment" discussion and analysis that follows.

General and administrative ("G&A") expenses on a consolidated basis increased to $17,894,067 for 2023 as compared to $15,403,458 for 2022. The most significant increase in G&A expenses for 2023 relates to employee costs, which increased by $2,114,275 from 2022 to 2023 due to increased stock compensation, higher bonus accruals, pay raises and new hires, Insurance expense and professional fees also increased by $607,444 and $212,685, respectively, from 2022 to 2023. These increases were partially offset by decreases in various other G&A expense categories.

Other income, net, remained relatively consistent at $522,256 for 2023 as compared to $548,729 for 2022.

Results by Segment

Retail Segment:

The retail segment recorded a loss from operations of ($470,573) for 2023 as compared to a loss from operations of ($900,747) for 2022.

Revenue generated by our retail water operations increased to $22,560,998 in 2023 from $19,114,653 in 2022 due to a 17% increase in the volume of water sold. The volume of water sold in the Cayman Water license area increased by 15% and the remaining 2% increase in the volume of water sold was due to water sales made by Cayman Water directly to the WAC in January and February of 2023. The sales volume increase reflects increased tourist activity on Grand Cayman, as tourism on the island in 2022 was lower than historical levels due to the lingering impact of the COVID-19 pandemic. Retail revenue also increased by approximately $899,000 due to higher energy costs which increased the energy pass-through component of our retail water rates.

Retail segment gross profit increased to $12,205,181 (54% of retail revenue) for 2023 from $9,710,529 (51% of retail revenue) for 2022 due to the revenue increase.

Consistent with prior periods, we record all non-direct G&A expenses in our retail segment and do not allocate any of these non-direct costs to our other three business segments. Retail G&A expenses increased to $12,668,467 for 2023 as compared to $10,613,975 for 2022. The most significant increase in G&A expenses for 2023 relates to employee costs, which increased by $1,531,132 due to pay raises, increased stock compensation expense and higher bonus accruals. Business development expenses increased by approximately $152,000 primarily due to the costs associated with the acquisition of Ramey Environmental Compliance (which was completed in November 2023).

Bulk Segment:

The bulk segment contributed $6,896,492 and $6,475,164 to our income from operations for 2023 and 2022, respectively.

Bulk segment revenue was $25,975,483 and $24,442,324 for 2023 and 2022, respectively. The increase in bulk segment revenue is attributable to an 8% increase in the volume of water sold.

Gross profit for our bulk segment was $7,964,765 (31% of bulk revenue) and $7,661,073 (31% of bulk revenue) for 2023 and 2022, respectively. Gross profit dollars increased from 2022 to 2023 due to the incremental revenue.

Bulk segment G&A expenses remained consistent at $1,080,543 for 2023 as compared to $1,187,909 for 2022.

Services Segment:

The services segment contributed $16,921,397 and $1,143,215 to our income from operations for 2023 and 2022, respectively.

Services segment revenue increased to $66,243,328 for 2023 from $18,530,427 for 2022. Construction revenue increased to $52,563,822 in 2023 from $5,347,023 in 2022 with this increase resulting from (i) PERC's progress on its contract with Liberty Utilities for the construction of a water treatment plant in Goodyear, Arizona; and (ii) progress on our contract with the WAC for the construction of its Red Gate plant. We recognized approximately $44.1 million in revenue for the Liberty Utilities contract in 2023. This contract is expected to be substantially completed by the end of the second quarter of 2024. Revenue generated under operations and maintenance contracts was $12,750,902 and $10,740,623 in 2023 and

2022, respectively. The increase in operations and maintenance revenue from 2022 to 2023 is attributable to new contracts and increased revenue on existing contracts. Design and consulting revenue generated by the services segment was $928,604 and $2,442,781 in 2023 and 2022, respectively. The decrease in design and consulting revenue from 2022 to 2023 is attributable to the work performed in 2022 on the design contract for the Liberty Utilities plant currently under construction.

Gross profit for the services segment was $19,776,464 (30% of services revenue) in 2023 as compared to $3,681,398 (20% of services revenue) for 2022. During the three months ended June 30, 2023 and the three months ended September 30, 2023, we adjusted our previous estimates of the total costs to be incurred for the Liberty Utilities contract and one other construction contract. These changes in accounting estimates arose as a result of actual construction costs and efficiencies that differed favorably from our previous expectations. These changes in accounting estimates resulted in an increase in the services segment's revenue, gross profit and income from operations of $3,549,028 for 2023 under the input method we use to account for construction contracts and was a significant contributing factor in the increase in gross profit as a percentage of services revenue from 2022 to 2023. The remainder of the increase in gross profit as a percentage of revenue reflects improved margins on both our construction and operations and maintenance activities.

G&A expenses for the services segment increased to $2,855,067 for 2023 as compared to $2,554,721 for 2022 principally due to an increase of approximately $407,000 in employee costs attributable to pay raises, new hires and increased bonus accruals.

Manufacturing Segment:

The manufacturing segment contributed $1,402,592 to our income from operations for 2023 as compared to a loss incurred from operations of ($634,819) in 2022.

Manufacturing revenue was $12,180,519 and $3,589,333 for 2023 and 2022, respectively. The growth in manufacturing revenue for 2023 reflects increased production activity due to relief in supply chain and economic conditions that had resulted in significant product delivery delays in 2022.

Manufacturing gross profit was $2,690,649 (22% of manufacturing revenue) for 2023 as compared to a gross profit of $412,034 (11% of manufacturing revenue) for 2022. The increase in manufacturing gross profit in dollars reflects the increase in revenue. Gross profit as a percentage of revenue increased due to increased revenue and the resulting reduced impact of fixed factory overhead on this financial measure.

G&A expenses for the manufacturing segment increased to $1,289,990 for 2023 as compared to $1,046,853 for 2022 principally due to an increase of approximately $155,000 in employee costs attributable to pay raises, new hires and increased bonus accruals.

FINANCIAL CONDITION

The significant changes in the components of our condensed consolidated balance sheet as September 30, 2023 as compared to December 31, 2022 (other than the change in our cash and cash equivalents, which is discussed later in "LIQUIDITY AND CAPITAL RESOURCES") and the reasons for these changes are discussed in the following paragraphs.

Accounts receivable increased by approximately $11.1 million primarily due to a $6.9 million increase in CW-Bahamas' accounts receivable as well as a $3.3 million increase in Kalaeloa Desalco accounts receivable related to the construction of the Kalaeloa Seawater Desalination facility in Oahu, Hawaii.

Current inventory increased by approximately $2.2 million primarily due to an increase of $2.5 million in PERC's inventory primarily as a result of its contract with Liberty Utilities.

Contract assets increased by approximately $6.1 million primarily due to the construction of the Red Gate plant for the WAC.

Property, plant and equipment, net, decreased by approximately $2.5 million due to the scheduled depreciation of fixed assets.

Construction in progress increased by approximately $2.7 million primarily due to construction activity for Cayman Water's replacement of its West Bay desalination plant.

Accounts payable, accrued expenses and other liabilities increased by approximately $3.0 million primarily due to a $1.5 million increase in subcontractor costs for PERC's contract with Liberty Utilities, and a $1.9 million increase in taxes payable offset by a $1.5 million decrease in Aerex's accrued expenses.

Contract liabilities increased by approximately $725,000 primarily due to $1.8 million increase in billings made by the services segment in connection with PERC's contract with Liberty Utilities and Kalaeloa Desalco's contract with the Board of Water Supply of the City and County of Honolulu, Hawaii. These increases were offset by a $1.1 million reduction in Aerex's contract liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Certain transfers from our Bahamas bank accounts to our bank accounts in other countries require the approval of the Central Bank of The Bahamas.

The Cayman Islands does not have a tax treaty with the United States. Consequently, should we be required (or elect) to transfer any profits generated by our U.S. operations to our parent company in the Cayman Islands, the amount of any such profits transferred would be subject to a 30% withholding tax.

Liquidity Position

We paid approximately $3.85 million in November 2023 to acquire Ramey Environmental Compliance. Our remaining projected liquidity requirements for the fourth quarter of 2023 include capital expenditures for our existing operations of approximately $5.1 million, which includes approximately $292,000 to be incurred for the replacement of the West Bay seawater desalination plant and approximately $2.5 million for construction of the WAC's new Red Gate plant. Additionally, approximately $4.7 million in raw materials purchase commitments were outstanding as of September 30, 2023. We paid approximately $4.0 million in dividends in 2023 and our liquidity requirements may include future quarterly dividends if such dividends are declared by our Board.

As of September 30, 2023, we had cash and cash equivalents of $48.8 million and working capital of $83.1 million.

With the exception of the liquidity matter relating to CW-Bahamas that is discussed in the paragraphs that follow, we are not presently aware of anything that would lead us to believe that we will not have sufficient liquidity to meet our needs.

CW-Bahamas Liquidity

CW-Bahamas' accounts receivable balances (which include accrued interest) due from the WSC amounted to $23.2 million and $16.3 million as of September 30, 2023 and December 31, 2022, respectively. Approximately 76% and 65% of the accounts receivable balances were delinquent as of those dates, respectively.

From time to time, CW-Bahamas has experienced delays in collecting its accounts receivable from the WSC. When these delays occur, we hold discussions and meetings with representatives of the WSC and The Bahamas government, and as a result, payment schedules are developed for WSC's delinquent accounts receivable. All previous delinquent accounts receivable from the WSC, including accrued interest thereon, were eventually paid in full. Based upon this payment history, CW-Bahamas has never been required to provide an allowance for doubtful accounts for any of its accounts receivable, despite the periodic accumulation of significant delinquent balances. As of September 30, 2023, we have not provided an allowance for doubtful accounts for CW-Bahamas' accounts receivable from the WSC.

CW-Bahamas recently held discussions with the Ministry of Finance of the Government of the Bahamas which stated that the Government intends to return all of CW-Bahamas' accounts receivable from the WSC to current status.

In a report dated October 6, 2022, Moody's Investor Services ("Moody's") downgraded the Government of The Bahamas' long-term issuer and senior unsecured ratings to B1 from Ba3. Moody's also lowered The Bahamas' local currency ceiling to Baa3 from Baa2 and its foreign currency ceiling to Ba1 from Baa3. Moody's iterated these ratings in April 2023, noting that such ratings are "stable." Based upon our review of this Moody's correspondence, we continue to believe no allowance for doubtful accounts is required for CW-Bahamas' accounts receivable from the WSC.

If CW-Bahamas is unable to collect a sufficient portion of its delinquent accounts receivable, one or more of the following events may occur: (i) CW-Bahamas may not have sufficient liquidity to meet its obligations; (ii) we may be required to cease the recognition of revenue on CW-Bahamas' water supply agreements with the WSC; and (iii) we may be required to provide an allowance for doubtful accounts for CW-Bahamas' accounts receivable. Any of these events could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

Discussion of Cash Flows for the Nine Months Ended September 30, 2023

Our cash and cash equivalents decreased to $48,845,606 as of September 30, 2023 from $50,711,751 as of December 31, 2022.

Cash Flows from Operating Activities

Net cash provided by our operating activities was $8,395,625. This net cash reflects the net income generated for the nine months ended September 30, 2023 of $20,206,301 as adjusted for (i) various items included in the determination of net income that do not affect cash flows during the year; and (ii) changes in the other components of working capital. The more significant of such items and changes in working capital components included depreciation and amortization of $4,862,781, an increase in accounts receivable of $11,062,456, an increase in contract assets of $6,059,018, an increase in inventory of $2,671,769, and an increase in accounts payable and accrued expenses of $2,925,670.

Cash Flows from Investing Activities

Net cash used by our investing activities was $6,542,387. On January 4, 2023, we purchased the remaining 39% ownership interest in PERC for $2,440,027 and 368,383 shares of the Company's common stock. We also used $4,123,770 for additions to property, plant and equipment and construction in progress.

Cash Flows from Financing Activities

Net cash used by our financing activities was $3,972,022, almost all of which related to the payment of dividends.

Revolving Credit Facility

In September 2022, Cayman Water entered into an agreement (the "Credit Agreement") with Scotiabank & Trust (Cayman) Ltd. (the "Bank") for a revolving credit facility in an aggregate principal amount of up to $10.0 million (the "Credit Facility"). We expect to utilize the funds obtained from the Credit Facility for general working capital purposes.

The Credit Facility matures two years following the date of the initial advance (the "Maturity Date"). All amounts outstanding under the Credit Facility are due and payable upon the earlier of the Maturity Date, demand from the bank or the acceleration of the Credit Facility upon an event of default.

The principal balance of the Credit Facility bears interest at a rate of 2.0% plus the secured overnight financing rate ("SOFR") as determined by the SOFR Administrator for a one-month period on the day that is two days prior to the first day of the interest period. All interest calculations will be made based on a 360-day year. So long as the Bank has not demanded repayment, interest will be payable monthly, commencing one month from the initial advance, with the outstanding balance due on the Maturity Date, unless the Bank agrees to renew the Credit Facility for an additional period.

Cayman Water's obligations under the Credit Agreement are secured by a first priority lien on all its fixed and floating assets and an assignment of insurance proceeds with respect to its fixed assets. Further, the Company has guaranteed the repayment of all of Cayman Water's present and future debts and liabilities owed to the Bank.

The Credit Agreement requires Cayman Water to meet certain financial covenants.

Cayman Water has not yet utilized any of its available borrowings under the Credit Facility.

Material Commitments, Expenditures and Contingencies

Cayman Water Retail License

We sell water through our retail operations under a license issued in July 1990 by the Cayman Islands government (the "1990 license") that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, we continue to supply water under the terms of the 1990 license, as discussed in the following paragraphs. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman Island: Seven Mile Beach and West Bay. For the three months ended September 30, 2023 and 2022, we generated approximately 14% and 25%, respectively, of our consolidated revenue and 23% and 44%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license. For the nine months ended September 30, 2023 and 2022, we generated approximately 18% and 29%, respectively, of our consolidated revenue and 29% and 45%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the license expired on January 31, 2018. We continue to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with our understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. We continue to pay a royalty of 7.5% of the revenue we collect as required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office ("OfReg"). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector and the retail license negotiations from the WAC to OfReg in May 2017. We began license negotiations with OfReg in July 2017 and such negotiations are continuing. We have been informed during our retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of our license in a manner that could significantly reduce the operating income and cash flows we have historically generated from our retail license.

The Cayman Islands government could seek to grant a third party a license to service some or all of Cayman Water's present service area. However, as set forth in the 1990 license, *"the Governor hereby agrees that upon the expiry of the term of this Licence or any extension thereof, he will not grant a licence or franchise to any other person or company for the processing, distribution, sale and supply of water within the Licence Area without having first offered such a licence or franchise to the Company on terms no less favourable than the terms offered to such other person or company."*

We are presently unable to determine what impact the resolution of our retail license negotiations will have on our cash flows, financial condition or results of operations but such resolution could result in a material reduction (or the loss) of the operating income and cash flows we have historically generated from our retail operations and could require us to record impairment losses to reduce the carrying value of our retail segment assets. Such impairment losses could have a material adverse impact on our consolidated financial condition and results of operations .

CW-Bahamas Performance Guarantees

Our contracts to supply water to the WSC from our Blue Hills and Windsor plants require us to guarantee delivery of a minimum quantity of water per week. If the WSC requires the water and we do not meet this minimum, we are required to pay the WSC for the difference between the minimum and actual gallons delivered at a per gallon rate equal to the price per gallon that WSC is currently paying us under the contract. The Blue Hills contract expires in 2032 and requires us to deliver 63.0 million gallons of water each week. The Windsor contract expires in 2033 and requires us to deliver 16.8 million gallons of water each week.

Adoption of New Accounting Standards

Financial Accounting Standard Update ("ASU") 2016-13, *Measurement of Credit Losses on Financial Instruments,* and related amendments, introduces new guidance which makes substantive changes to the accounting for credit losses. This guidance introduces the current expected credit losses ("CECL") model which applies to financial assets subject to credit losses and measured at amortized cost, as well as certain off-balance sheet credit exposures. The CECL model requires an entity to estimate credit losses expected over the life of an exposure, considering information about historical events, current conditions, and reasonable and supportable forecasts and is generally expected to result in earlier recognition of credit losses. We adopted this guidance as of January 1, 2023 using the modified retrospective approach. The impact of this adoption was not material to our consolidated financial statements.

Effect of Newly Issued but not yet Effective Accounting Standards

None.

Dividends

- On January 31, 2023, we paid a dividend of $0.085 to shareholders of record on January 3, 2023.
- On April 28, 2023, we paid a dividend of $0.085 to shareholders of record on April 3, 2023.
- On July 31, 2023, we paid a dividend of $0.085 to shareholders of record on July 3, 2023.
- On August 22, 2023, our Board declared a dividend of $0.095 payable on October 31, 2023 to shareholders of record on October 2, 2023.

We have paid dividends to owners of our common stock and redeemable preferred stock since we began declaring dividends in 1985. Our payment of any future cash dividends will depend upon our earnings, financial condition, cash flows, capital requirements and other factors our Board of Directors deems relevant in determining the amount and timing of such dividends.

Dividend Reinvestment and Common Stock Purchase Plan

This plan is available to our shareholders, who may reinvest all or a portion of their common stock dividends into shares of common stock at prevailing market prices and may also invest optional cash payments to purchase additional shares at prevailing market prices as part of this plan.

Impact of Inflation

Under the terms of our Cayman Islands license and our water sales agreements in The Bahamas and the British Virgin Islands, our water rates are automatically adjusted for inflation on an annual basis. Therefore, the impact of inflation on our gross profit, measured in consistent dollars, historically has not been material. However, we have not increased our retail water rates since January 2018 (despite the inflation that has occurred since that date) due to the lack of a resolution of our negotiations with OfReg for a new retail license. This lack of a rate increase has contributed to a decline in the gross profit generated by our retail segment. Furthermore, our manufacturing segment has been adversely impacted by recent significant increases in raw material costs and our services segment could suffer similar adverse impacts in the future. Should the current inflationary trend continue, our consolidated results of operations and cash flows could be materially adversely affected. In general, our operating and maintenance contracts are adjusted annually for the impacts of inflation.

While PERC's operations and maintenance contracts are generally adjusted for inflation on an annual basis, such adjustment for some of these contracts is limited to 3% annually.

Kalaeloa Desalco, which is jointly owned by PERC and CW-Holdings, has signed a definitive agreement with the Honolulu Board of Water Supply to design, build, operate and maintain a 1.7 million gallons per day seawater reverse osmosis desalination plant in Oahu, Hawaii. More than 90% of the costs we expect to incur to construct this plant are subject to inflationary increases based upon changes in inflation indices from the date the contract was executed to the date construction begins.

Increases in fuel and energy costs and other items could create additional credit risks for us, as our customers' ability to pay our invoices could be adversely affected by such increases.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from December 31, 2022 to the end of the period covered by this report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of its principal executive officer and principal financial and accounting officer, the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial and accounting officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Mexico Project litigation

a) *EWG request of precautionary measures*

In January 2018, EWG Water LLC ("EWG") initiated an ordinary mercantile claim against, among others, N.S.C. Agua, S.A. de C.V. ("NSC") and Consolidated Water Cooperatief, U.A. ("CW-Cooperatief") (with Aguas de Rosarito S.A.P.I. de C.V. ("AdR") being named as a third party to be called to trial) before the Tenth Civil Judge in Tijuana, Baja California for Mercantile Matters (the "Tenth Civil Judge").

In such claim, EWG challenged, among other things, the transactions contemplated under a certain option agreement (entered into in 2012), and therefore, the capital investment transactions occurring in May 2013 that increased the ownership interest of CW-Cooperatief in NSC to 99.99%. On October 1, 2020, and following an order from a Federal Judge obtained by NSC, the Tenth Civil Judge resolved to (i) move the claim of EWG to arbitration, and (ii) suspend the corresponding ordinary mercantile procedure. Within the above-mentioned claim, the Tenth Civil Judge granted EWG certain preliminary measures against NSC, which were later overturned by an Upper Court.

In July 2023, EWG filed a motion before a local court in Playas de Rosarito, Baja California (the "Rosarito Court") to obtain precautionary measures consisting of the securing of assets owned by NSC (particularly real estate), as a procedure prior to the commencement of an arbitration that allegedly would be initiated by EWG against NSC to claim the payment of an indemnification for damages derived from a so-called simulation of legal acts. In the opinion of the Rosarito Court, such motion did not require notification to NSC or the presentation of counterarguments by NSC to the motion prior to securing the assets of NSC.

On July 28, 2023, the Rosarito Court issued a resolution in which it: (i) granted the precautionary measures requested by EWG, subject to the posting of a bond in the amount of MXN$1,500,000 (One Million Five Hundred Thousand Mexican Pesos), and (ii) ordered that once the precautionary measures were executed, NSC would be summoned to that procedure and EWG would have three business days to prove that it initiated the arbitration.

To our knowledge, EWG has not posted the bond set by the Rosarito Court. Therefore: (i) the precautionary measures have not been enforced, (ii) no securing or attachment has been registered against the real estate of NSC; and (iii) NSC has not been formally summoned to this procedure.

Furthermore, NSC is unaware of any arbitration commenced by EWG regarding this matter.

b) *NSC amparo lawsuit*

On August 16, 2023, NSC filed an amparo suit (i.e. application for constitutional relief) before the Eleventh Federal District Court in Tijuana ("Eleventh Federal Court") against the precautionary measures granted to EWG by the Rosarito Court.

In its amparo suit, NSC also requested the Eleventh Federal Court to grant an order to put on hold said precautionary measures. A preliminary order to stay was granted by the Eleventh Federal Court, followed by a definitive injunction, subject to the posting of a guarantee. NSC has submitted the guarantee to the court.

We cannot presently determine what impact the resolution of this matter may have on our consolidated financial statements.

ITEM 1A. RISK FACTORS

Our business faces significant risks. These risks include those disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 as supplemented by the additional risk factors included below. If any of the events or circumstances described in the referenced risks actually occurs, our business, financial condition or results of operations could be materially adversely affected and such events or circumstances could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. These risks should be read in conjunction with the other information set forth in this Quarterly Report as well as in our Annual Report on Form 10-K for the year ended December 31, 2022 and in our other periodic reports on Form 10-Q and Form 8-K.

Our exclusive license to provide water to retail customers in the Cayman Islands has not been expressly extended and we are presently unable to predict the outcome of our on-going negotiations relating to this license.

We sell water through our retail operations under a license issued in July 1990 by the Cayman Islands government (the “1990 license”) that granted Cayman Water the exclusive right to provide potable water to customers within its licensed service area. Although the 1990 license was not expressly extended after January 2018, we continue to supply water under the terms of the 1990 license, as discussed in the following paragraphs. Pursuant to the 1990 license, Cayman Water has the exclusive right to produce potable water and distribute it by pipeline to its licensed service area, which consists of two of the three most populated areas of Grand Cayman Island: Seven Mile Beach and West Bay. For the three months ended September 30, 2023 and 2022, we generated approximately 14% and 25%, respectively, of our consolidated revenue and 23% and 44%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license. For the nine months ended September 30, 2023 and 2022, we generated approximately 18% and 29%, respectively, of our consolidated revenue and 29% and 45%, respectively, of our consolidated gross profit from the retail water operations conducted under the 1990 license.

The 1990 license was originally scheduled to expire in July 2010 but was extended several times by the Cayman Islands government in order to provide the parties with additional time to negotiate the terms of a new license agreement. The most recent express extension of the license expired on January 31, 2018. We continue to operate under the terms of the 1990 license, providing water services to the level and quality specified in the 1990 license and in accordance with our understanding of its legal obligations, treating those obligations set forth in the 1990 license as operative notwithstanding the expiration of the express extension. We continue to pay a royalty of 7.5% of the revenue we collect as required under the 1990 license.

In October 2016, the Government of the Cayman Islands passed legislation which created a new utilities regulation and competition office (“OfReg”). OfReg is an independent and accountable regulatory body with a view of protecting the rights of consumers, encouraging affordable utility services, and promoting competition. OfReg, which began operations in January 2017, has the ability to supervise, monitor and regulate multiple utility undertakings and markets. Supplemental legislation was passed by the Government of the Cayman Islands in April 2017, which transferred responsibility for economic regulation of the water utility sector and the negotiations with us for a new retail license from the WAC to OfReg in May 2017. We began license negotiations with OfReg in July 2017 and such negotiations are ongoing. We have been informed during our retail license negotiations, both by OfReg and its predecessor in these negotiations, that the Cayman Islands government seeks to restructure the terms of our license in a manner that could significantly reduce the operating income and cash flows we have historically generated from our retail license.

We are presently unable to determine what impact the resolution of our retail license negotiations will have on our cash flows, financial condition or results of operations but such resolution could result in a material reduction (or the loss) of the operating income and cash flows we have historically generated from our retail operations and could require us to record impairment losses to reduce the carrying values of our retail segment assets. Such impairment losses could have a material adverse impact on our consolidated financial condition and results of operations.

Periodically, our Bahamas subsidiary experiences substantial delays in the collection of its accounts receivable. As a result, our Bahamas subsidiary could have insufficient liquidity to continue operations, and our consolidated results of operations could be materially adversely affected.

CW-Bahamas' accounts receivable balances (which include accrued interest) due from the WSC amounted to $23.2 million as of September 30, 2023. Approximately 76% of this September 30, 2023 accounts receivable balance was delinquent as of that date. The delay in collecting these accounts receivable has adversely impacted the liquidity of this subsidiary.

From time to time (including presently), CW-Bahamas has experienced delays in collecting its accounts receivable from the WSC. When these delays occur, we hold discussions and meetings with representatives of the WSC and The Bahamas government, and as a result, payment schedules are developed for WSC's delinquent accounts receivable. All previous delinquent accounts receivable from the WSC, including accrued interest thereon, were eventually paid in full. Based upon this payment history, CW-Bahamas has never been required to provide an allowance for doubtful accounts for any of its accounts receivable, despite the periodic accumulation of significant delinquent balances. As of September 30, 2023, we have not provided an allowance for doubtful accounts for CW-Bahamas' accounts receivable from the WSC.

In a report dated October 6, 2022, Moody's Investor Services ("Moody's") downgraded the Government of The Bahamas' long-term issuer and senior unsecured ratings to B1 from Ba3. Moody's also lowered The Bahamas' local currency ceiling to Baa3 from Baa2 and its foreign currency ceiling to Ba1 from Baa3. Moody's iterated these ratings in April 2023, noting that such ratings are "stable."

If CW-Bahamas is unable to collect a significant portion of its delinquent accounts receivable, one or more of the following events may occur: (i) CW-Bahamas may not have sufficient liquidity to meet its obligations; (ii) we may be required to cease the recognition of revenue on CW-Bahamas' water supply agreements with the WSC; and (iii) we may be required to provide an allowance for doubtful accounts for CW-Bahamas' accounts receivable. Any of these events could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

If the future financial performance of Aerex falls short of our most recent financial projections for this subsidiary, we may be required to record impairment losses to reduce the carrying values of the goodwill and intangible assets of our manufacturing segment.

Approximately 80% of Aerex's revenue, and 89% of Aerex's gross profit, for the year ended December 31, 2020 were generated from sales to one customer. While Aerex sells various products to this customer, Aerex's revenue from this customer has historically been derived primarily from one specialized product. In October 2020, this customer informed Aerex that, for inventory management purposes, it was suspending its purchases of the specialized product from Aerex following 2020 for a period of approximately one year. This customer informed Aerex at that time that it expected to recommence its purchases of the specialized product from Aerex beginning with the first quarter of 2022. As a result of this anticipated loss of revenue for Aerex, we updated our projections for our manufacturing reporting unit's future cash flows. Such projections assumed, in part, that Aerex's major customer would recommence its purchases from Aerex in 2022 but at a reduced aggregate amount, as compared to 2020. Based upon these updated projections, we tested our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. As a result of these impairment tests, we determined that the estimated fair value of our manufacturing reporting unit exceeded its carrying value by approximately 31% as of December 31, 2020.

In late July 2021, this former major customer communicated to Aerex that it expected to recommence its purchases of the specialized product from Aerex in 2022 and subsequent years, but informed Aerex that such purchases would be at substantially reduced annual amounts, as compared to the amounts it had purchased from Aerex in 2020 and prior years. Our updated sales estimate for this customer based on this new information was substantially below the anticipated sales to this customer for 2022 and subsequent years that we used in the discounted cash flow projections we prepared for purposes of testing our manufacturing reporting unit's goodwill for possible impairment as of December 31, 2020. Furthermore, Aerex's efforts to replace the revenue previously generated from this customer with revenue from existing and new customers were adversely impacted by negative economic conditions (caused in part by the COVID-19 pandemic). These negative economic conditions also increased Aerex's raw material costs, resulted in raw material shortages and extended delivery times for such materials, and adversely affected the overall financial condition of Aerex's current and prospective customer base. Accordingly, in light of this new information from Aerex's former major customer and the on-going weak economic conditions that we believed would continue through 2022, we updated our projections of future cash flows for the manufacturing reporting unit and tested its goodwill for possible impairment as of June 30, 2021 using the discounted cash flow and guideline public company methods, with a weighting of 80% and 20% applied to these two methods, respectively. Based upon this testing, we determined that the carrying value of our manufacturing reporting unit exceeded its fair value by $2.9 million, and we recorded an impairment loss to reduce our manufacturing segment's goodwill by this amount for the three months ended June 30, 2021.

The accounting estimates and assumptions we employ to estimate the fair values of our manufacturing and reporting units constitute "critical accounting estimates" for us because:

- the nature of these estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change (for example, should interest rates rise significantly in the future we would likely be required to increase the discount rate we use under the discounted cash flow method we use to estimate the fair values of our reporting units, and such increased discount rate in and of itself could decrease the estimated fair value of our reporting units under the discounted cash flow method); and
- the impact of the estimates and assumptions on financial condition and results of operations is material.

We believe that the inherent uncertainties associated with the accounting estimates and assumptions we use for our estimates of our reporting units' fair values have increased due to current, less predictable economic conditions, which have resulted in increasing raw material prices, extended and unexpected delays in the procurement and delivery of our raw materials, and have also, we believe, adversely affected our customers.

Based upon our estimation prepared as of December 31, 2022, the fair value of our manufacturing reporting unit exceeded its carrying value by 63%. If we determine in the future that Aerex's discounted future cash inflows will be less than our present expectations, we may be required to record additional impairment losses to reduce the remaining carrying values of our manufacturing segment's goodwill and its remaining unamortized intangible assets balances, which amounted to $1,985,211 and $684,444, respectively, as of September 30, 2023. Any such impairment losses could have a material adverse impact on our consolidated results of operations.

Current economic conditions have adversely impacted the supply chain for our operations and could have a material adverse impact on our financial results.

As a result of the recent economic conditions, we have experienced issues with our supply chain for the raw materials, components, chemicals, and capital expenditures used in our operations, including rapidly increasing prices, scarcities/shortages, and longer fulfillment times and unexpected delays for our orders to suppliers. Should these economic conditions and issues continue, our operations could be adversely affected, which could have a material adverse impact on our consolidated financial condition, results of operations, and cash flows.

The profitability of our contracts is dependent upon our ability to accurately estimate construction and operating costs.

The cost estimates we prepare in connection with the construction and operation of our water plants, the water infrastructure we construct and sell to third parties, and our manufacturing contracts, are subject to inherent uncertainties. Additionally, the terms of our water supply contracts may require us to guarantee the price of water on a per unit basis, subject to certain annual inflation and monthly energy cost adjustments, and to assume the risk that the costs associated with producing this water may be greater than anticipated. Because we base our contract prices in part on our estimation of future construction, manufacturing and operating costs, the profitability of our plants and our manufacturing and operations and maintenance contracts is dependent on our ability to estimate these costs accurately. The cost of materials and services and the cost of the delivery of such services may increase significantly after we submit our bid for contract, which could cause the gross profit for a contract to be less than we anticipated when the bid was made. The profit margins we initially expect to generate from an operations and maintenance contract could be further reduced if future operating costs for that contract exceed our estimates of such costs. Any construction, manufacturing, and operating costs for our contracts that significantly exceed our initial estimates could have a material adverse impact our consolidated financial condition, results of operations, and cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In July 2023, we issued 5,057 shares of preferred stock to 28 employees for a total consideration of $55,795. The issuance of the preferred stock to 15 of the employees was exempt from registration under Regulation S promulgated under the Securities Act of 1933 as amended (the “Securities Act”), because the shares were issued outside of the United States to non-US persons (as defined in Regulation S). The issuance to 13 employees who are US persons was exempt under Section 4(a)(2) of the Securities Act. The US persons are knowledgeable, sophisticated and experienced in making investment decisions of this kind and received adequate information about us or had adequate access, including through their business relationship with us, to information about us.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSOLIDATED WATER CO. LTD.

By: /s/ Frederick W. McTaggart
Frederick W. McTaggart
Chief Executive Officer
(Principal Executive Officer)

By: /s/ David W. Sasnett
David W. Sasnett
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: November 9, 2023

EXHIBIT 31.1

Rule 13a-14(a)/15d-14(a) Certification

I, Frederick W. McTaggart, certify that:

1. I have reviewed this report on Form 10-Q of Consolidated Water Co. Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

By: /s/ Frederick W. McTaggart
Frederick W. McTaggart
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Rule 13a-14(a)/15d-14(a) Certification

I, David W. Sasnett, certify that:

1. I have reviewed this report on Form 10-Q of Consolidated Water Co. Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

By: /s/ David W. Sasnett
David W. Sasnett
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report of Consolidated Water Co. Ltd. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Frederick W. McTaggart, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

By: /s/ Frederick W. McTaggart
Frederick W. McTaggart
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report of Consolidated Water Co. Ltd. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David W. Sasnett, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

By: /s/ David W. Sasnett
David W. Sasnett
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)